

13
IMPACT OF FEDERAL MANDATED MARITIME USER
FEES

4. M 53:103-14

Impact of Federal Mandated Maritime...
ARING
EFORE THE

SUBCOMMITTEES ON
COAST GUARD AND NAVIGATION
AND MERCHANT MARINE

OF THE

COMMITTEE ON
MERCHANT MARINE AND FISHERIES
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE GENERAL ACCOUNTING OFFICE'S STUDY ON THE
IMPACT OF FEDERALLY MANDATED USER FEES ON
THE MARITIME INDUSTRY

MARCH 25, 1993

Serial No. 103-14

Printed for the use of the Committee on Merchant Marine and Fisheries



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IMPACT OF FEDERAL MANDATED MARITIME USER FEES

THURSDAY, MARCH 25, 1993

HOUSE OF REPRESENTATIVES, SUBCOMMITTEE ON COAST
GUARD AND NAVIGATION, JOINTLY WITH SUBCOMMITTEE
ON MERCHANT MARINE, COMMITTEE ON MERCHANT
MARINE AND FISHERIES,

Washington, DC.

The Subcommittees met, pursuant to call, at 10:27 , in room 1334, Longworth House Office Building, Hon. W.J. Tauzin (Chairman of the Subcommittee on Coast Guard and Navigation) presiding.

Present: Representatives Tauzin, Barlow, Stupak, Pickett, Hochbrueckner, Pallone, Laughlin, Andrews, Ackerman, Coble, Bate-
man, Inhofe, and Saxton.

Staff Present: Elizabeth Megginson, Rusty Savoie, Matt Szigety, Catherine Gibbens, Bill Wright, Jim Adams, John Bondareff, Sue Waldron, Ed Lee, Margherita Woods, Kip Robinson, John Rayfield, and Laurel Bryant.

STATEMENT OF HON. BILLY TAUZIN, A U.S. REPRESENTATIVE FROM LOUISIANA, AND CHAIRMAN, SUBCOMMITTEE ON COAST GUARD AND NAVIGATION

Mr. TAUZIN. Good morning. This hearing will please come to order. Today I welcome the members of both the Subcommittee on Coast Guard and Navigation and the Subcommittee on Merchant Marine to this joint hearing to receive testimony on the charges, fees and taxes on the maritime industry.

I want to first express my deep appreciation to my colleague, Bill Lipinski, chairman of the Merchant Marine Subcommittee for his work on this issue and his support in calling this hearing along with our subcommittee. Chairman Lipinski's leadership on Merchant Marine issues has been indeed outstanding and he has an incredible task this year trying to build a maritime policy for this nation.

Over a year ago, several members of the Merchant Marine and Fisheries Committee asked the General Accounting Office to conduct a study on all the charges being levied by the Federal Government on the commercial maritime industry. This request arose as a result of several factors. The 1990 Budget Reconciliation Act process resulted in new and increased user fees being imposed on the maritime industry by the Coast Guard and other agencies of the government.

However, many of us were deeply troubled by the lack of information available on which to base these very important decisions. We do not want to see unnecessary or burdensome user fees, charges and taxes result in crippled industries that provide basic and necessary services at reasonable rates, good paying safe jobs for our citizens, and economic development for our communities.

While the deficit must be reduced, taxes which reduce the ability of an entire industry to compete in international markets or cause industries to make extreme cutbacks in their hiring and capital expenditures, can actually increase the deficit by reducing taxable revenues. This study gives Congress a valuable tool for evaluating proposals for fees, charges, and taxes and also for responding when we are told that a particular revenue proposal will indeed be unduly burdensome.

I look forward to hearing from the General Accounting Office and congratulate them on a job well done. In our staff review and my personal review of the report, I can tell the members of both of our subcommittees that the General Accounting Office has been exhausting in their review and the report is illuminating. As you read it, more and more information just jumps off the pages, and we will have a chance to examine that today.

I particularly want to thank them for the excellent coordination with our staff to ensure that the study was responsive to the request of the committee.

We will also hear from some of the affected maritime interests today, who will comment on the study on how well it relates to their experience in the area. It is our hope that this hearing will result in wiser, fairer legislation to insure that we in fact reduce the deficit without crippling vital industries.

Those of us on this committee understand the essential role of the commercial maritime industry, the essential role it plays in our country's economics, and we do not want to see that role diminish.

I would like to recognize the ranking minority member of the Coast Guard Subcommittee, the Honorable Howard Coble of North Carolina and the ranking minority member of the Merchant Marine Subcommittee, Herb Bateman, will also be here shortly. First of all, Mr. Coble.

**STATEMENT OF HON. HOWARD COBLE, A U.S. REPRESENTATIVE
FROM NORTH CAROLINA, AND RANKING MINORITY MEMBER,
SUBCOMMITTEE ON COAST GUARD AND NAVIGATION**

Mr. COBLE. Thank you, Mr. Chairman. I thank you and Chairman Lipinski for having called this hearing which will allow our Subcommittees to explore the General Accounting Office's study about the impact of federally mandated user fees on the maritime industry. I hope this report will wake up the Congress to the fact that the first step in reforming our maritime industry is to stop or at least relax the practice of taxing this important American industry completely out of existence.

While I was aware that the number of maritime taxes and user fees have been increasing, I was shocked to learn that the Congress and the Administration have levied 117 individual assessments on the maritime industry, and there are more to come.

I am also concerned about the effect or the potential bad that could come from President Clinton's proposed fuel tax increase on our already distressed maritime industry. These numerous assessments and proposed taxes will drain the life out of our recovering economy while directly diminishing our trade competitiveness in the world economy.

Finally, like you, Mr. Chairman, I want to commend the staff at the GAO for what appears to be an excellent report about this issue and look forward to their summary today. Mr. Chairman, this concludes my remark but I would like to move for unanimous consent to have Congressman Michael Castle's statement introduced in the record.

[Statement of Mr. Castle follows:]

STATEMENT OF HON. MICHAEL N. CASTLE, A U.S. REPRESENTATIVE FROM DELAWARE

Thank you, Mr. Chairman. The economic impact of Federal taxes, user fees and mandates on industries and States has been a major concern of mine for numerous years. As the Governor of Delaware for the last eight years, I had to deal with the problems created by unfunded Government mandates and changes in Federal tax laws that affected the State. Thus, I understand the frustration and concern of the maritime industry, coping with the effect of enormous increases in Federal taxes, user fees and duties imposed on them.

I suppose the concept of requiring the Congressional Budget Office to issue an economic impact statement for legislation that creates or increases any taxes or fees would allow Congress, businesses and States to be fully aware of the effect of such legislation.

I also am concerned about the increased user fees in the President's Budget, which are disguised as spending savings. I am interested in hearing the testimony of representatives of the merchant marine industry to learn the potential impact of the President's proposed inland waterway fuel tax increase before it's enacted, rather than after the fact.

Mr. TAUZIN. Without objection all written statements submitted to the Chair will be incorporated into the record.

[The prepared statements mentioned follow:]

STATEMENT OF HON. WILLIAM O. LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS, AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

I would like to begin by thanking the distinguished Chairman of the Subcommittee on Coast Guard and Navigation, Billy Tauzin, for his efforts to bring this important issue before us. Today, the General Accounting Office will present groundbreaking information essential to the future of the United States commercial maritime industry. They should be commended for their hard work over the last year to compile vital information surrounding a complex issue. I would also like to welcome our panel of maritime industry witnesses and to extend my gratitude for their contributions to determine the costs and impacts of assessments levied on their industry.

The General Accounting Office report will finally arm us with the evidence needed to probe more deeply into the issue of competitiveness and maritime assessment fairness. I find it very troublesome that an industry which provided \$11.9 billion in Government revenues in Fiscal Year 1991 continues to decline.

As a Member from the Great Lakes basin, I am particularly concerned about the impact these assessments may have on cargo diversion from American ports to ports in Canada. We must also consider the possibility that excessive fees are driving U.S.-flag vessel owners to register their vessels overseas.

Again, I would like to thank the witnesses for their testimony today. It will certainly aid the Subcommittees in an ongoing effort to determine the amount, purpose, and destination of funds being collected by Federal Government agencies from our commercial maritime industry.

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND
RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I am pleased that this hearing has been called to review the results of the study conducted by the General Accounting Office (GAO) to document the various fees and taxes assessed on the maritime industry.

The Members of this Committee have known for years that the legislative process involving the adoption of the user fees, taxes, and other assessments levied on the maritime industry has been done without any regard to their cumulative affect. This GAO report will give this Committee the background data necessary to make sense of all these assessments.

As a result of the lack of coordinated input, it has not been possible up to this point to determine the total effect on this industry. Our Committee, along with several others in Congress, created these assessments—many of which were driven by the desire to offset rising Federal costs for services provided to the maritime industry—but others have been enacted solely for the purpose of raising revenues.

Paying for services received is one thing, but merely increasing fees to bring money into the Federal Treasury is something that I have consistently opposed. This GAO report highlights all the existing assessments and puts into focus how the maritime industry has, in my judgment, borne an unfair share of our tax burden.

Mr. Chairman, I hope that we will carefully consider the information collected by the General Accounting Office and decide to solve our serious fiscal problems without enacting any additional fees or taxes on our beleaguered maritime industry. The problems facing this nation are extraordinary and solutions must be found. Nevertheless, in our search for answers to our budgetary problems we must understand the impacts of various proposed Federal taxes and fees. With this GAO report, we finally have the background information we need to help us do this job.

Thank you, Mr. Chairman, I look forward to the presentations by our witnesses today.

STATEMENT OF HON. HERBERT H. BATEMAN, A U.S. REPRESENTATIVE FROM VIRGINIA

I want to thank Chairmen Tauzin and Lipinski for holding this hearing today. The effects of the fees, taxes and duties on the maritime industry is an important trade issue that has not received the kind of comprehensive review it deserves.

I also commend Chairman Tauzin and Congressman Saxton for preparing legislation to require economic impact statements for bills that increase maritime fees, and that requires public hearings and comment periods before increasing maritime fees and charges. I am cosponsoring these bills and hope that these measures are acted on this year.

I attended the May 1991 hearing on maritime fees and the February 1992 hearing on direct Coast Guard user fees. I am pleased that as a follow-up to those two hearings we now have this comprehensive GAO report that provides a complete picture of the added expense imposed on the maritime industry by the many Federal charges detailed in the report.

I hope this report will form the basis for an effort to stop the growth in these fees. However, since the President's Budget proposes an enormous increase in the barge fuel tax, extending the tonnage tax increases adopted in 1990 beyond their currently scheduled expiration, and "improving" the collection of the harbor maintenance tax, we clearly have our work cut out for us.

I look forward to hearing GAO's summary and to hearing from industry representatives about the effects these fees have on our competitiveness.

Mr. TAUZIN. The Chair wishes to do two things first of all, to alert the members of both Subcommittees, the Chair has prepared a dear colleague letter with a letter to the President expressing our deep concern about the proposed one dollar per gallon levy increase on fuels used by the inland barge industry in light of this study that we have just produced.

I think the study will further amplify the dear colleague and the letter to the President concern that a dollar per gallon, 600 percent increase in taxes on an industry already heavily burdened by a myriad of taxes and fees, would be a little much. The Senate has already passed a sense of the Senate resolution opposing this one

dollar levy. We are likely to introduce a similar resolution in the House, and I would ask you to consider joining the dear colleague and the letter to the President. I am now passing copies of that around to you.

And the second thing I want to do, Mr. Coble, is acknowledge and recognize the extraordinary contribution of Jim Saxton to this GAO report. He and his staff have been personally involved in helping to coordinate with the Committee staff and assuring that the GAO had the right kind of direction and coordination in this effort and with the permission of the Subcommittee, I would like now to recognize Mr. Saxton for comment.

STATEMENT OF HON. H. JAMES SAXTON, A U.S. REPRESENTATIVE FROM NEW JERSEY, AND RANKING MINORITY MEMBER, SUBCOMMITTEE ON ENVIRONMENT AND NATURAL RESOURCES

Mr. SAXTON. Thank you, Mr. Chairman. And I thank you for the wonderful cooperation that you have shown and the interest that you have shown in this issue and for inviting me to be part of this process today inasmuch as I am not a member of either of the Subcommittees.

I would also like to point out and amplify on the remarks that you just made with regard to the individuals from the General Accounting Office who worked very diligently over the past many months to bring all of this information together so that we can consider it today.

The GAO actually, Mr. Chairman, I am told sorted through and dealt with over 300 Federal agencies who had the capacity to impose fees or taxes on the maritime industry. And in so doing pointed out that we collect about 1.2 billion dollars from the maritime industry. For those of us who believe that the tax code is not only a tool to raise revenue for the Federal Government, but is also a tool which can influence behavior both in the private and public sectors, in an economic sense, this becomes a very, very important issue for us to deal with today, particularly as it relates to the maritime industry which is oftentimes not understood nor in the public view very often.

This study was actually initiated at our request because of legislation that I introduced along with the Chairman of this Subcommittee, that would require an economic impact study and statement to be done prior to the imposition of any further taxes or increases in taxes on the maritime industry.

I think it is important to point out that the need for this type of Congressional reform was made abundantly evident during the passage of the 1990 Omnibus Budget Reconciliation Act in which taxes and fees on the maritime industry seemingly came out of the walls. The OBRA included—listen to this—a 212 percent increase in the harbor maintenance tax, a 350 percent increase in the vessel tonnage duty, various costs and Coast Guard fees, the development of an animal health and plant inspection fee, a 4 percent transportation revenue tax, various navigation fees, and an increase in the Federal grain inspection service fee.

So, all of these things together pose not only a very difficult situation for the maritime industry to deal with, but when we under-

stand that oftentimes decisions are made about shipping, how it is done and where it is done, based on a very, very marginal profit, which these taxes affect, one begins to understand the significance of what we did in 1990 or what some did in 1990 who supported these increased fees.

And so, Mr. Chairman, I ask that my entire statement be included in the record at this point, and I look forward to hearing from the witnesses today.

[Statement of Mr. Saxton follows:]

STATEMENT OF HON. H. JAMES SAXTON, A U.S. REPRESENTATIVE FROM NEW JERSEY

I want to thank Chairman Tauzin and Chairman Lipinski for calling this hearing and inviting me to join their Subcommittees today.

I also want to express my appreciation to the General Accounting Office (GAO) for an outstanding job in compiling this report. In a Government comprised of approximately 300 agencies, collecting roughly \$1.2 trillion a year in revenues, this was a daunting and labor intensive task. Now it's up to us in Congress to ensure that this exhaustive endeavor was not in vein.

The mere fact that this Committee had to turn to the GAO in order to identify the level of Federal taxation on a sector of our domestic economy clearly illustrates just how ignorant and complacent the Federal Government is regarding its effect on the private sector in general.

This GAO study was initiated to back up legislation I introduced in the last Congress which would have required the Congressional Budget Office (CBO) to perform an economic impact statement (EIS) on the potential effects of any new taxes or fees on the maritime industry. The EIS would then be submitted to Chairman and Ranking Member of each standing committee in the House—giving an opportunity for hearings to be held.

The need for this Congressional reform was made evident following the passage of the 1990 Omnibus Budget Reconciliation Act (OBRA) in which taxes and fees on the maritime industry seemingly emerged from the walls. The OBRA included a 212 percent increase in the harbor maintenance tax; a 350 percent increase in the vessel tonnage duty; various Coast Guard fees; the development of an animal, plant and health inspection fee (APHIS); a 4 percent transportation revenue tax; various navigation fees; and an increase in the federal grain inspection service fee.

To this day it is not clear how much the costs of maritime transit went up as a result of the OBRA. What is clear is that the maritime industry is losing its competitive edge compared with foreign ports, and the costs from outstanding mandates and new tax proposals will further jeopardize our domestic maritime jobs.

What is so ironic is that the new tax proposal may prompt requests for additional subsidies to support domestic exports hurt by these artificially inflated costs.

The merits of these mandates and increases are not at issue. Mandated pollution prevention equipment, construction criteria and licensing requirements have been prioritized by the U.S. citizenry as necessary costs of doing maritime business in this country. However, as is illustrated in the GAO report, a full 89 percent of the revenues collected go to the general Treasury—far and above the collected fees from any Federal services rendered to the maritime community.

Although the GAO listed 117 separate taxes and fees levied on the maritime industry, this does not begin to cover those charges which may be levied at the State and local levels.

As the rhetoric to increase our competitive edge in the emerging global markets intensifies, Government must reform its way of doing business. It is incumbent upon us to pay strict attention to the cumulative burden we place on our domestic sectors and prioritize the costs of responsible behavior over the fees for revenue generation.

I plan to reintroduce reform legislation next week and hope my colleagues on this Committee will again join me in that effort.

I look forward to hearing the GAO's summary of its report and to hear from the witnesses with us today.

Thank you.

Mr. TAUZIN. Again, Jim, my personal thanks for your extraordinary leadership here, and I hope results of this GAO study give us all a better handle on this situation. Is there any other member who wishes to make an oral statement at this time? Mr. Pickett,

you have a written statement you want to submit for the record. We will accept that into the record with unanimous consent.

[Prepared statement of Mr. Pickett follows:]

STATEMENT OF HON. OWEN B. PICKETT, A U.S. REPRESENTATIVE FROM VIRGINIA

I want to thank the distinguished chairman of these Subcommittees, Representatives Billy Tauzin and William Lipinski, respectively, for holding today's hearing.

Each of us has grown increasingly concerned about the cumulative economic impact that the combination of user fees, customs duties, and other taxes has had on our maritime industries. Today, we will learn in more detail what the precise impact of these fees has been. The General Accounting Office has spent considerable time and expense compiling this report. We welcome them today.

The GAO report contains hard facts and figures, and they will be very helpful to us. For those of us who represent districts that contain, or are near, a major port facility, we haven't had to wait for the numbers to come in. We have witnessed firsthand the increasing difficulty that our port industries have had competing. Jobs have been lost, and growth has been stymied.

I also want to take this opportunity to commend you, Chairman Tauzin, for your letter of this date to President Clinton. As you correctly point out, we can ill afford to place additional burdens on the maritime industries. Such burdens would invariably result from increased inland waterway user fees and higher energy taxes.

Again, I commend our respective chairmen for holding these hearings, and I join them in hoping that we can come to a better understanding today of the overall economic burden that Federal policy places on the maritime industries.

Mr. INHOFE. Mr. Chairman, just a brief comment. In my district in Tulsa, Oklahoma, one of the best kept secrets is we do have an inland waterway that reaches us. When I read of this 600 percent increase in barge fuel, I contacted the President and CEO of the largest barge company that services us as well as our own port, and they assured me that this multi-billion dollar government investment in the Port of Catusa, would be down the drain if this thing becomes a reality, so I enthusiastically join you in your letter, Mr. Chairman, and also the comments by the ranking member as far as the barge fuel tax increase is concerned.

Mr. TAUZIN. Any other opening statements? Then I am pleased to welcome on behalf of both Subcommittees, Mr. John H. Anderson, Jr., who is Associate Director of Transportation Issues, Resources, Community, and Economic Development Division of the United States General Accounting Office. And, John, if you will please introduce the persons with you at the table so that we might also thank all of you for the excellent work you have done. Mr. Anderson.

STATEMENT OF MR. JOHN ANDERSON, ASSOCIATE DIRECTOR, TRANSPORTATION ISSUES, RESOURCES, COMMUNITY, AND ECONOMIC DEVELOPMENT DIVISION, UNITED STATES GENERAL ACCOUNTING OFFICE

Mr. ANDERSON. Thank you for the kind remarks. On my right is Joanna Stamatiades and on my left is Emi Nakamura, two key players in performing this study. It is quite a comprehensive piece of work. What I would like to do is summarize my testimony and I ask that the entire statement be entered for the record.

Mr. TAUZIN. Without objection, that is our normal rule. I would appreciate your summary.

Mr. ANDERSON. Thank you. We appreciate the opportunity to testify on our March 5, 1993 report to you concerning assessments that have been levied on the commercial and maritime industry.

For some time you have been concerned about the number and amount of user fees, taxes and other charges that have been levied on the industry. However, because no one knew the nature of or total number and amount of these assessments, you requested that GAO identify them as a starting point for evaluating their cumulative impact.

Overall, we found that 12 Federal agencies collected almost 11.9 billion dollars in fiscal year 1991 for 117 assessments. Ninety-two of them are specific to the maritime industry and are not collected from other transportation modes. The remaining 25 are levied on the maritime industry as well as other modes of transportation and therefore are not specific to the maritime industry.

Customs duties accounted for the bulk of the collections - almost ten billion dollars in 1991. However, amounts collected for customs duties decreased about 25 percent from fiscal years 1990 through 1992. On the other hand, amounts collected for all other assessments have increased about 21 percent over the last four years. In addition, beginning this fiscal year, two of the twelve agencies plan to collect 30 new assessments from the industry that are expected to generate over 25.7 million dollars in additional collections.

I will now discuss each of these points in more detail. As the first chart shows, the number of assessments and amounts collected varied significantly among the 12 agencies. For example, two agencies, the Federal Grain Inspection Service and the St. Lawrence Seaway Development Corporation, each levied one assessment. Two other agencies, the National Marine Fisheries Service and the Interstate Commerce Commission, each levied 18 assessments.

Overall, collections declined from 12.3 billion dollars in fiscal year 1990 to an estimated 10 billion dollars in fiscal year 1992, a decrease of about 19 percent. However, as this second chart shows, when Customs duties are excluded, collections rose from 1.8 billion dollars in fiscal year 1989 to an estimated 2.1 billion in 1992, an increase of about 21 percent.

Moreover, the amounts collected for specific assessments that are levied only on vessels rose during the last four years from .7 to 1.2 billion dollars, an increase of about 71 percent.

The Customs Service collected by far the largest amount of specific assessments from the industry, almost one billion dollars in fiscal year 1991. The Panama Canal Commission and the Internal Revenue Service ranked second and third respectively, each collecting just under 500 million dollars.

We found that the assessments fell into four categories: administrative processing and associated services, physical services, taxes, and miscellaneous services and Customs duties.

This next chart shows that when Customs duties are excluded, two categories, administrative services and taxes each accounted for about 27 percent of the total dollars collected in 1991; physical services accounted for 25 percent of the collections; and miscellaneous services made up the remaining 21 percent.

A breakdown of the 117 assessments shows that at least 76 percent of them are paid by vessel owners or operators. Importers, exporters, and other parties paid the remaining assessments.

We have one last chart that shows the purpose of the assessments which fall into basically three categories. In fiscal 1991, 825

million dollars or 43 percent of the assessments were collected to generate revenue for trust funds; 512 million dollars or 27 percent was collected to directly reimburse agencies for services; and 584 million dollars or 30 percent, excluding customs duties, was collected to generate revenue for the General Fund of the U.S. Treasury.

We also found that a few assessments in each of these categories accounted for a significant portion of the dollars collected. For example, the Harbor Maintenance Fee accounted for nearly 46 percent of the 825 million dollars collected for trust funds. Panama Canal Commission tolls for transit fees accounted for nearly 73 percent of the 512 million dollars collected to directly reimburse agencies for expenses incurred, and Customs' Merchandise Processing Fee accounted for over 83 percent of the 584 million dollars collected for the General Fund of the U.S. Treasury.

We also found that two agencies, the Coast Guard and the Federal Maritime Commission, plan to levy new assessments on the industry beginning this fiscal year. The Coast Guard will levy 28 new assessments which will increase collections from the industry by as much as 25.5 million dollars in fiscal 1993. By 1997, the Coast Guard's additional assessments are expected to grow by 57 percent and cost the industry almost 40 million dollars. The Federal Maritime Commission will levy two new assessments that are estimated to increase collections in 1993 by about 159 thousand dollars.

In summary, Mr. Chairman, a number of diverse assessments have been levied on the commercial maritime industry. Assessments specific to the industry have been increasing and additional assessments are being made this year.

We hope that the information that we obtained for you will be useful in your deliberations on the impact of these assessments on the industry. This concludes my prepared remarks. We would be glad to answer any questions.

[Statement of Mr. Anderson can be found at end of hearing.]

Mr. TAUZIN. Thank you, Mr. Anderson. A couple of things just leap out at you. The first is a reduction in customs duties, 1990 to 1992, 25 percent, a dramatic drop. I haven't seen a lot of trade figures indicating that trade with the United States is on a decline. Imports go up and down but they generally go up, and yet custom duties are going down. What is going on?

Mr. ANDERSON. We were told that there isn't a drop in the amount of imports, but because of trade agreements, more commodities are being exempted from Customs duties, which is why the fees are dropping.

Mr. TAUZIN. Is it your finding that it is a reduction in customs duties or is there a rerouting of items through Canadian ports because of the Canadian Free Trade Agreement?

Mr. ANDERSON. I really don't have any information on that. We were told by Customs officials that the reduction was primarily a function of more commodities being exempted from duties.

Mr. TAUZIN. I suggest to the members of the Committee that this is an interesting area of inquiry as we approach the new NAFTA agreement with Mexico. This dramatic decline in customs collections, if it simply is a product of lowering customs duties across the spectrum is one thing, but while we are facing increasing imports, if customs duties are going down, and it is a consequence of goods

and commodities being rerouted via the Canadian Free Trade Agreement that poses some real questions as to the effect of NAFTA.

Mr. LAUGHLIN. Would the gentleman yield?

Mr. TAUZIN. Mr. Laughlin, I would be glad to yield.

Mr. LAUGHLIN. Would that be a topic appropriate for us to explore with the trade representative to determine if they are tracking in any way the diversion of these imports to Canada and/or Mexico? I know coming from Texas, our former Senator Bentsen was concerned about that very topic, and while he was chairman of the Finance Committee was trying to track it. But it seems listening here that maybe our trade representatives in the past, if not monitored that and had teeth in it and rather than try to look at blame in the past we ought to have the current trade representative looking at these these very things.

Mr. TAUZIN. Well, the gentleman is correct. Actually before we finish this hearing we will be discussing the next steps of the study, what we would like the GAO to do in a follow-up report to us, and it is very clear that that is a subject of inquiry for someone, if not GAO, for us, perhaps other subcommittees in future hearings. But clearly there is some questions here left unanswered, and as we approach a policy question on NAFTA we may want to answer them at this committee.

Mr. LAUGHLIN. Is it appropriate to ask the GAO to pursue the diversion of products because of this committee's jurisdiction over the customs service and fees—

Mr. TAUZIN. Surely it would be appropriate. As I said, one of the last questions we are going to get into is where do we go from here, and that may be one of the areas we want to look at.

Mr. LAUGHLIN. Thank you, Mr. Chairman.

Mr. TAUZIN. I thank the gentleman. The other thing that jumps out at you is the fact that 92 different assessments are special to the maritime industry as opposed to other intermodal facilities, 584 million dollars going to the General Fund, not to cover the cost of harbor maintenance or special fees related to providing services, but going to the treasury.

It looks like taxes collected specially from the maritime industry are going to fund the government and perhaps not collected on other intermodal facilities. What is your idea of what is going on? I notice 83 percent of that is from the merchandise processing fee. What is that fee, and why is this fee being collected, and why does it go to the Treasury?

Mr. ANDERSON. As I understand it, the Merchandise Processing Fee is a fee that is assessed on commodities based upon the value of the commodities to help pay for part of the cost of Customs processing paperwork. It goes into the General Fund of the U.S. Treasury, but I understand that there is a process to offset the Customs appropriation when this happens. This fee is a little misleading in that it does supposedly go for services that Customs is providing, but goes into the general fund of the Treasury.

Mr. TAUZIN. In all of your research, you obviously must have been struck as we were with the size of these special fees on one sector of the transportation industry. Can you give us any idea how

these compare to fees and assessment levied on other transportation sectors such as trucking, rail or air?

Mr. ANDERSON. We haven't done any direct comparison. I do know, for example, that in the airport and airways trust fund area there have been very substantial increases as a result of the Omnibus Budget Reconciliation Act of 1990. Five of the six taxes that are levied on various fuels help pay for some of the costs of aviation that they have increased. But I can't say whether it has increased more for the maritime industry than the aviation industry or the truck industry.

Mr. TAUZIN. I recall when President Reagan ran for President, one of the commitments he made to the maritime industry was a thing called intermodal parity. And I saw it quoted many times in the eight years of the Reagan Administration and into the Bush years as taxes and fees were proposed. Has there ever been a study to assess the relative parity of fees across the intermodal spectrum?

Mr. ANDERSON. I am not aware of any, Mr. Chairman.

Mr. TAUZIN. We notice that customs duties of course comprise a great bulk of these revenues. In your opinion, could the other transportation modes pick up or accommodate much of this volume of commerce that is now carried on marine vessels?

Mr. ANDERSON. I don't think so. There is so much that is large, bulk material. I can't see where there is an airplane quite big enough to handle these bulk items. I don't think so.

Mr. TAUZIN. And finally, given the research you have already done, can you give us your best estimates of where we ought to ask you to go from here? What are the questions that are left unanswered, if you will, by your current research?

Mr. ANDERSON. I think there are two main questions as far as we are concerned. There are also fees, assessments, and user charges imposed by states and localities, which can have an additional impact on the industry. That is something that I think that we might be willing to pursue. Another thing that I think needs to be looked at is, what is the real cost of providing these services, and are the fees that are being assessed commensurate with the cost?

GAO has only done one review in this area, and that had to do with the Merchandise Processing Fee. We issued a report, I believe it was back in 1990, where we found that Customs really didn't have a good cost accounting system upon which to base its cost. Now, the Chief Financial Officers Act requires that the chief financial officers of all the major departments and agencies, every two years, assess the cost associated with their fees and user charges that they impose.

Mr. TAUZIN. Do they do that?

Mr. ANDERSON. I don't know if they have done it, but that is something that I think needs to be looked at. If they have, that would shed some light on the appropriateness of the fees.

Mr. TAUZIN. And finally, we mandate a lot of costs upon the maritime industry. That is, not government imposed fees but government imposed costs, because of government requirements. Would an analysis of those mandates be useful in this review?

Mr. ANDERSON. I think it might, yes, sir.

Mr. TAUZIN. In reference to the second point you made, I want to call the Committee's attention to that issue how costs are properly accounted for. If you recall, at one point when the Commandant of the Coast Guard was testifying on a particular fee schedule, he stated that even a part of his salary was counted in part of an inspection fee. We don't really have a standard in the government in determining how to assess cost.

Mr. ANDERSON. No, the standard is a very broad one. I think there is an OMB circular that basically says that in identifying the costs you should identify the direct as well as the indirect costs, but that leaves it wide open.

Mr. TAUZIN. And if indirect cost means the salary of the Commandant, we have got real problems in managing this system, don't we?

Mr. ANDERSON. You have to get a handle on it, yes, sir.

Mr. TAUZIN. Thank you very much, Mr. Anderson. Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman. Mr. Anderson, good to have you and your staff with us. Mr. Chairman, you have been reading my mail because your questions are the same ones I had to ask, but let me—

Mr. TAUZIN. We watch you very closely, Mr. Coble.

Mr. COBLE. Of course the Chairman has the privilege of being able to read mail so he can get away with it. Mr. Anderson, let me extend what the Chairman said and maybe put a little different spin on it, and that involves his question regarding the comparative figures opposed upon the maritime industry versus fees and costs and charges imposed upon other modes of transportation, i.e., rail, airline industry and trucking. And you gave an answer to that, but let me go and dig a little more deeply.

I think, Mr. Chairman, if we could do that, to have Mr. Anderson maybe give us some more detail about that. Number one, the comparative figures, and number two, to what extent are these fees and charges earmarked to cover specific costs incurred by each respective industry as opposed to general fund funding. Do you think you could do that, Mr. Anderson?

Mr. ANDERSON. You mean here today?

Mr. COBLE. Mr. Anderson, I don't even mean tomorrow.

Mr. ANDERSON. Good.

Mr. COBLE. But—

Mr. ANDERSON. No, I think that that is something that could be done. You know, this was a pretty monumental undertaking to gather the information just on the maritime industry. It would take some time, but I think it could be done.

Mr. COBLE. If that could be done without dropping everything that you are doing, I don't mean for the life or death but a feature on it, but I think that would help us. Let me ask you this question, again, extending what the Chairman talked about diverting goods that come to us ultimately through foreign ports. I am thinking specifically of Canadian ports. I presume that fees imposed north of the border are obviously less severe than those we imposed; common sense would tell me that. Is that a fact, the fact that many goods come through the Canadian ports?

Mr. ANDERSON. I am not aware of any information on that. I don't know if my colleagues are aware of any or not. No, I don't think we have any information on it.

Mr. COBLE. OK, well perhaps we can dig into that as well. Do you know, Mr. Anderson, or your staffers, how the fees that we in this country impose upon the maritime industry compares with fees imposed by other countries upon their maritime industries? Do you have any feel for that?

Mr. ANDERSON. I don't.

Ms. STAMATIADIS. That is work we haven't done. We haven't done any work with other countries or looked to see what other countries levy on their maritime industry.

Mr. COBLE. Well, I am extending my tentacles into these areas, Mr. Chairman. I think this information might be helpful to us as we advance farther on our course. Thank you folks for being with us. Thank you, Mr. Chairman.

Mr. TAUZIN. Thank you, Mr. Coble. We are going to have another panel. Those questions might be interesting to get some feel from the members of the industry. Mr. Andrews of Maine can ask some questions.

Mr. ANDREWS. Thank you, Mr. Chairman. And first of all let me say thank you for your leadership in pursuing this issue. It is very difficult to separate the wheat from the chaff often in this business and to get fiction separated from fact, and this kind of study helps us to do that.

I won't take up too much time, but I just want to pursue one step further this line of questioning with respect to trade agreements and their impact on this drop of revenues coming from customs. The Customs Service officials told you that the changes were due primarily to these various trade agreements. Do they give you other factors besides the trade agreements that were responsible for this decline?

Mr. ANDERSON. I don't think so.

Ms. STAMATIADIS. I think I can answer that. Customs officials also told us that duty rates themselves have declines. So not only are you getting goods coming in under more free trade agreements, but you also see an actual decline in duty rates.

Mr. ANDREWS. Thank you. Did they specify, with respect to the trade agreements, did they specify the trade agreement that had—or the series of trade agreements that had specific relationships to these reductions? And did they quantify that at all?

Ms. STAMATIADIS. There was no quantification of the numbers whatsoever. What they did tell us was that indeed the decline is due in part to the Canadian Free Trade Agreement.

Mr. ANDREWS. I am sorry?

Ms. STAMATIADIS. The decline is due in part to the Canadian Free Trade Agreement.

Mr. ANDREWS. But they didn't break that down. Well, I just want to second this initiative that has been discussed of the committee for pursuing this specific line of questioning because obviously it has a direct impact on NAFTA. Outside of the issue of NAFTA, however, did they give you any indication of any trends for the future? Is this something that we can expect to see increasing, this gap, or should I say decrease in the decline of revenues coming in?

Mr. ANDERSON. I think so. Some of the people that we spoke to indicated that they think it is going to continue to decline.

Mr. ANDREWS. And did they give you any, again, any specific reasons, any specific trade agreements or factors that they—

Mr. ANDERSON. They mention specifically NAFTA as one of them that would lead to continuing decline.

Mr. ANDREWS. One final—and I know we are going to be hearing more testimony from those who are directly affected by this—but did your analysis in any way quantify the impact, the economic impact that these are having on any of the specific industries?

Mr. ANDERSON. No, we really didn't.

Mr. ANDREWS. OK. Thank you very much, Mr. Chairman.

Mr. TAUZIN. Thank you, Mr. Andrews. Mr. Bateman.

Mr. BATEMAN. Thank you, Mr. Chairman. Mr. Anderson, on page 4 of your written testimony, there is a table there that indicates that the St. Lawrence Seaway Development Corporation is one of those that are assessing certain fees or charges. But the footnote indicates that 100 percent of all that is collected is rebated to the people who paid it. Does it occur to you that maybe we need to abolish the fee and stop—

Mr. ANDERSON. Yes, that does raise an interesting question. I think we were told that one of the reasons that they do that is that they want to make sure that the Canadians don't change their fees, but it does raise a question, yes. It is taking out of one pocket and putting it into the other.

Mr. TAUZIN. I assume Mr. Bateman we employ someone to do that, collect it and give it back.

Mr. BATEMAN. Well, it is a job creation program, I guess. The other question that I have, on page 12 of the written testimony you indicate 28 new assessments being proposed by the Coast Guard. The revenues generated from those new assessments, are they available only for purposes of carrying out Coast Guard programs that are authorized or does it go into the general fund of the Treasury?

Mr. ANDERSON. It is my understanding that they go into the general fund of the Treasury.

Mr. BATEMAN. By whose mandate is the Coast Guard suggesting these 28 new assessments?

Mr. ANDERSON. I think the Omnibus Budget Reconciliation Act of 1990 gave them the authority to do this for the first time. I guess, generally, prior to that time the Coast Guard wasn't able to assess any fees.

Mr. BATEMAN. I guess it is something of a Parkinson's Law, if you give a Federal agency authority, they are going to use all you give them. OK, thank you.

Mr. TAUZIN. Thank you, Mr. Bateman. Mr. Laughlin, questions.

Mr. LAUGHLIN. Thank you, Mr. Chairman. Mr. Anderson, on page 10 of your report, I think you have broken down for the GAO the assessments paid primarily by owners and operators and in different categories, and comment we often hear when these assessments are made, well, they are going to be passed onto the consumer. I wonder in this breakdown where you have 54 paid by the vessel's owner or operator and then the next category is 22 are paid only by the owner, then 17 are paid by the owner/operator, or

one other party such as a charter—did you all make any determine if these are passed on to the consumer or if they are taken out of the profits or intended profits of the operator?

Mr. ANDERSON. I don't believe we did anything on that. I don't know whether we got any information during the audit work.

Ms. STAMATIADIS. No, we didn't. What we tried to do in this case was to see who is actually paying. Not the agent or the broker or anything like that, but who is actually paying that cost.

Mr. LAUGHLIN. Now, when you talk about the vessel's owner, you are talking about the large seagoing vessels in addition to the inland waterway vessels, aren't you?

Mr. ANDERSON. Yes.

Mr. LAUGHLIN. And in that category you would have vessels whether they are flying under the American flag or Panamanian flag would be paying these fees. Is that correct?

Mr. ANDERSON. That is correct.

Mr. LAUGHLIN. Now, I want to go to the inland waterway fuel tax section and ask there if in your review and report on the various levels of taxation that is going to take place there on the per gallon, 1993 they increased it 20 cents per gallon by '95 and the proposal to increase it by a dollar by about 1997. Where did this idea originate? I mean it is easy to come in here and say it is the Clinton Administration or President Clinton, but probably is not President Clinton himself. Where did this proposal start floating around town from the Administration? Where could we point our finger and say which agency, which individual is responsible for this? Is that fair, Mr. Chairman?

Mr. TAUZIN. Everything is fair in love and war, I suppose.

Mr. LAUGHLIN. Well, the reason—I think we need to find out what consideration they gave to the impact this fee is going to have on agriculture, on a lot of the industry of mid-America and the Gulf Coast of Texas and Louisiana—on Louisiana—and the other coastal states.

Mr. ANDERSON. I do not know who specifically came up with the idea initially but I do know that with the work that we have done, if that information had been available sooner, it possibly could have changed things a little bit. Because when you find out that 71 percent—there has been a 71 percent increase in the assessments that are specific to the maritime industry over the last four years—that might cause a person to rethink whether or not he or she wants to impose another 500 plus percent increase in another fee. But I really don't know who initiated the idea.

Mr. TAUZIN. Will the gentleman yield?

Mr. LAUGHLIN. Yes, I will be happy to yield, Mr. Chairman.

Mr. TAUZIN. If you want to find that dog, I think I have found him for you. A CBO study dated May '92, Chapter 4, Inland Waterways. I will pass it to the gentleman but the study literally makes the claim that the primary users of the inland waterway system are commercial passenger boats, commercial recreational vessels and commercial barges, et cetera, and that like users of the highway and aviation systems, commercial waterway users pay fuel taxes, that are intended to cover some of the system's cost, but revenues from fuel taxes yielded only 63 million dollars in 1990 or 8 percent of the amount spent in support of inland waterway system.

OMB has recommended these huge increases on the basis of this CBO report.

Mr. LAUGHLIN. Mr. Anderson, my point is, in response to your statement that perhaps these things wouldn't have been considered if your study had been available to them, that I would ask that you send that section of your report to the CBO, OMB, I guess the Chief of Staff, the President, anybody else you desire.

Mr. ANDERSON. All right, we will do that.

Mr. LAUGHLIN. Now, the last area I wanted to ask you about, Mr. Anderson, is I believe your response has been—you didn't look to see where commodities were flowing in the international trade as you made your findings—

Mr. ANDERSON. That is correct.

Mr. LAUGHLIN. Who would be responsible for determining the country of origin for commodities that came into the United States via Canada or Mexico that had these exemptions that have lowered their revenues that the Customs Service has been collecting in the past?

Mr. ANDERSON. I would that would be a Customs' responsibility.

Mr. LAUGHLIN. Mr. Chairman, do we have anyone here from Customs today?

Mr. TAUZIN. No, we do not.

Mr. LAUGHLIN. Would it be appropriate for you as the Chairman to request information from the Customs Service what mechanism they are using to track the country of origin? Because I think it is important for us to know if countries are circumventing our customs fees to bring products into Canada and Mexico, if the Chairman would concur in that request.

Mr. TAUZIN. Well, I think it is most appropriate, Mr. Laughlin. Just to give you a personal anecdote, I was home in the heart of sugar country, Thibodaux, Louisiana, just a couple weeks ago packing some books at my home and I needed some cardboard boxes. I went over to the local Winn-Dixie and asked them if I could use some of their discarded boxes, and brought them over to the house. I noticed everyone of them was stamped Easter candy, imported from Canada.

Now, Canada doesn't make sugar. But it is exporting a lot of candy to the United States. We have a sugar import quota. The Canadian Free Trade Agreement I assume doesn't affect candy imported from Canada. There is an awful lot of sugar in that candy. And I suspect if we do the right kind of research we might be surprised or not so surprised at what we find. But these numbers certainly indicate—when you see 25 percent reduction in customs duties with the rise in imports we have seen over the last several years, something is kind of smelly in Denmark here. Mr. Laughlin.

Mr. LAUGHLIN. Well, I think it is important, Mr. Chairman, if we talk about free trade is we talk about trade agreements that exempt products in fairness to the American people who's constantly expected to pay more, that we have an obligation to determine who is cheating on us, and frankly where the cheatings occur. So, I would request the Chairman that we send that to the Customs.

Mr. TAUZIN. If the gentleman would further yield. It may not be a question of cheating. I mean we may have opened that door with

the Canadian Free Trade Agreement, no cheating going on, and if Canadian ports have lower or no fees as compared to fees that are imposed in our country, 92 fees that have gone up 71 percent over the last few years, you might not have to make a great leap of intellectual logic to understand that a shipper might choose a Canadian port to bring some goods into the United States. We literally have created, by our own policy, that possibility. We ought to explore what in fact is happening.

Mr. LAUGHLIN. That is my point, we can't even make a decision unless we know that it is happening.

Mr. TAUZIN. Exactly.

Mr. LAUGHLIN. If it is happening, then we can make better decisions, because in the time I have been here it seems that most nations of the world are far better traders than we Americans are, and we get taken to the mat on every trade arrangement that we have had, so I thank the Chairman for that. And the last comment, I may not have to ask the panel, Mr. Chairman, I thought I understood you to say that you are going to ask that an impact study be done on the dollar—additional dollar fuel tax impact on American agriculture and manufacturing.

Mr. TAUZIN. Mr. Laughlin, if you will yield again, you are correct. Let me first tell you that from our view of the CBO report, the CBO only examined revenue. It only examined the possibility that extracting more revenue from the waterway users, and it never looked at impacts. And the recommendation that now is before the Congress from the President on this dollar increase on the fuel tax is clearly a revenue driven recommendation without concern for impact. I think it is our obligation as much as any committee's, to help supply those impact numbers, and we are going to request some analysis be done about it.

Mr. LAUGHLIN. That is all I have. Thank you, Mr. Chairman.

Mr. TAUZIN. I thank the gentleman for his questions. Mr. Barlow for questions.

Mr. BARLOW. No questions, Mr. Chairman. I am very glad to be here, very glad to hear this report. Thank you.

Mr. TAUZIN. Thank you, Mr. Barlow. Let me jump quickly back in, Mr. Anderson. One of the complaints we hear is that not only is the structure by which costs to be covered in fees is very unclear and very ambiguous agency to agency, but we understand that not all the agencies are collecting the fees in the same way, in the same places. We have heard complaints that harbor maintenance fees for example may be assessed a different way on one vessel to the next. There is no standard for the application of a lot of these fees on various users in the maritime industry. Have you examined or seen any evidence of that in your review?

Mr. ANDERSON. No, we didn't. I do know that there was a study done I believe in 1990 or 1991 by GAO on the harbor maintenance fee where we found that it wasn't being enforced across-the-board correctly.

Mr. TAUZIN. So you have that study available to us also?

Mr. ANDERSON. Yes.

Mr. TAUZIN. And that study indicates that those complaints are probably correct?

Mr. ANDERSON. Yes, in that case.

Mr. TAUZIN. And do you know whether or not any action was taken in response to that study?

Mr. ANDERSON. I believe that one of the new Administration's proposals is to provide some additional funds to improve the enforcement efforts in that regard. That is basically what we recommended be done in that report.

Mr. TAUZIN. It is fairly important if we are going to have a fee that we assess it fairly and equally among the users.

Mr. ANDERSON. Yes.

Mr. TAUZIN. We continue to hear complaints today that it is not being done.

Mr. ANDERSON. I believe that we estimated about 23 million dollars could be collected if they enforced it better. That would be an option to tacking on additional fees just to enforce some of those that you already have.

Mr. TAUZIN. And then as a final question for you, when we examined your report and we looked at the amount of revenue that is yielded from some of these fees, we found the amount of revenue is minuscule. Not only did we find the particular incidence of a fee being collected that was 100 percent rebated, but we also found some fees that yielded very little income, and that I suspect the people hired to collect it are receiving more in salaries than the fee is yielding. Can you concur in that observation? Are we wrong or is that probably correct?

Mr. ANDERSON. I don't know for sure. I do know that if the chief financial officers are doing what they are supposed to be doing, that would certainly shed some light in that regard.

Mr. TAUZIN. Do we want to push that and raise fees? Do we want to consider getting rid of some fees that obviously don't yield any significant income and really just create a burden upon the industry and upon the government. And I suggest to the members that as you read the report you may want to examine some of those particular fees as they apply to maritime users in your own district. Mr. Saxton has returned and I want to yield to him.

Mr. SAXTON. Mr. Chairman, I apologize for having to be absent during the questioning. I suspect that I am the last questioner, and that we also have to go vote, so I will just pass up on questioning at this time.

Mr. LAUGHLIN. Mr. Chairman?

Mr. TAUZIN. Mr. Laughlin.

Mr. LAUGHLIN. I want to make one comment to Mr. Anderson for the benefit of this record GAO. On page 53 of the CBO report beginning in Chapter 4 Inland Waterways, where they talk about in 1990 the 776 million dollars to build, operate, maintain the nation's inland waterway system, then it talks later in that paragraph only collecting 63 million in that year, and the rest coming out of the general revenue funds of the Federal Government.

Everyone should keep in mind, Mr. Chairman, that there are benefits to every American citizen in the United States of America where there is an inland waterway system that this report is complaining about. And the example I would give you is I represent a coastal district that goes to the center of the state of Texas, almost 300 miles from the coastline, and a Texas Transportation Institute Study showed that if you close the inland waterway in my district,

not even the Houston area, there are not enough railroad cars or 18-wheel trucks in all the vast space in the state of Texas to carry the product that is carried in the intercoast canal in one day.

Keeping that in mind, if we close the intercoastal waterway, we will transfer those hazardous materials to rail cars that go through almost every country and certainly 18 wheel trucks that go through almost every county in the United States of America, and when I talk to the people in the center of the state of Texas, in my district, they understand the importance to them on an everyday basis of the inland waterway system, and I think whoever wrote this report, to be fair, was probably ignorant of the importance and certainly needs to be educated to the benefits to every American regardless of how many miles they live from the inland waterway system because otherwise they would have 18-wheel trucks that get in car wrecks and rail cars that turn over, just the one up in Maryland did the other day, and it has shut down that state's transportation system in some segments for several days now.

So, Mr. Chairman, I make that statement to point out people should not think that the only citizens getting a benefit from the inland waterway system are those that live on the banks of the canal or the river that is a part of the system. And having made that statement for the benefit of this record and the GAO, Mr. Chairman, I would yield back and thank you for recognizing me.

Mr. TAUZIN. Thank you, Mr. Laughlin, and I want the audience to know that ignorance was the mildest term the gentleman from Texas could conjure up in this emotional moment. The truth is that I drove down the interstate highways, down the throat of that storm recently, and spent three days on the road trying to get from Louisiana to Washington, and if anybody appreciates the congestion of 18-wheelers on the interstate highways, I do now.

Quickly before we leave, we have about eight minutes, the point I was making in regards to the fees that generate little revenue. If you look on page 4 of Mr. Anderson's testimony, you will see that the Interstate Commerce Commission levies 18 fees that collect 8 thousand dollars for the government. You've got to wonder how many people we employ to collect that 8 thousand dollars. Maybe we ought to look at that.

You look at the Federal Maritime Commission levies 13 fees and collects all of 51 thousand dollars. I am told the salary of the administrator of St. Lawrence Seaway Development Corporation is about three times that figure alone. We need to really consider as we examine this report whether or not we want to recommend some legislation to the Congress in this area.

Mr. Anderson, thank you so very much and to the ladies who accompanied you today and were such great assistance to us in this report, let me also say thank you on behalf of the Subcommittees and to all of you at GAO. We will be forwarding you some more requests to follow up. Your report has raised as many questions as it provided answers to us and we will enjoy working with you over the next months and perhaps even years. Thank you, Mr. Anderson.

Mr. ANDERSON. Thank you.

Mr. TAUZIN. We will recess the committee now while we go and vote. We will return in approximately 10 to 15 minutes for the second panel. The committee stands in recess.

[Recess.]

Mr. TAUZIN. The meeting will please come to order. We have got a big second panel. You notice those lights in front of you? We are going to ask you to please watch them. We are going to ask you to summarize your testimony and within the five-minute rule, which means that your written testimony is already a part of the record. We can read it in front of us, please don't read it again to us. We want to welcome Ms. Anne Aylward, Mr. John Joeckel, Mr. Joseph Farrell, Mr. Rod Schonland, Mr. Kendell Keith, Mr. Channing Hayden and Mr. Anthony Ianello, Jr. And we will start with Ms. Aylward.

STATEMENT OF ANNE D. AYLWARD, MARITIME DIRECTOR, MASSACHUSETTS PORT AUTHORITY, REPRESENTING THE AMERICAN ASSOCIATION OF PORT AUTHORITIES AND THE TRADE TAXES GROUP

Ms. AYLWARD. Thank you very much, Mr. Chairman. I think I will follow your advice, submit my testimony for the record but throw most of it out and simply respond to the comments from the members asking questions of the GAO panel. I have rarely heard such a terrific set of questions and comments. I don't really think that you need a panel of expert witnesses; you clearly understand the issues before you, but since I have the opportunity to comment, I will.

I am here today on behalf of the American Association of Port Authorities which represents virtually every U.S. public port as well as the major ports in Canada, Central and South America and the Caribbean. My testimony today represents the views of the U.S. ports.

Two years ago, we came before this committee to testify on the impacts of increased trade taxes and user fees on our ports. I remember very clearly Representative Saxton asking about the cumulative impacts, and we all kind of looked at each other because up until the point of this GAO report being published a couple of weeks ago, there was no place you could go to find even a listing of the taxes and user fees, never mind the dollar impacts. No one had—there was just no compilation of them, so the GAO report is truly a huge step forward for all of us.

We look forward to working with the GAO in terms of follow-up. As we have talked this morning, I have heard a number of times the comment of the impact on the maritime industry. I think it is very important to understand that we are talking here not only about the impact on a single industry, but in terms of the impact on the entire nation. We are talking about an impact on our nation's global competitiveness, and I think there are some fundamental choices that need to be made in terms of how it is we need to work together to deal with the national deficit, how we are going to raise sufficient money to cover, you know, what needs to be covered in the budget, and is that going to be done in user fees or is it going to be done in terms of general revenues.

If you look at the bottom line of the GAO report, once you get through the 117 different assessments, and the 11.9 billion dollars, 89 percent of that money is going back into the general fund. Now, we have heard a lot about user fees in the last decade. I think when you talk about 89 percent of what is being raised going back to the general fund, you are not talking about user fees anymore. And I think we need to understand whether, in fact, that is the appropriate way to be raising that money. What is the impact on our nation's competitiveness when we are talking about taxing exports?

A number of you have heard me testify before on the negative impact of trade taxes, particularly the impact of the harbor maintenance tax on our northern tier ports. It is not that we object to competing with our colleagues in Canada; the Canadians run a very efficient port system. What we object to is the fact that every cost savings we achieve in our labor agreements in our U.S. ports, in terms of investment, and I would remind you that the investment that has built our U.S. port system is an investment of local and state dollars. There are not Federal dollars that have built the terminals in the U.S. ports.

We are happy to compete with the Canadian ports, but when in a single pen stroke as part of the Budget Reconciliation in 1990, the harbor maintenance tax is tripled, the impact on a company like Polaroid—and I am sure Mr. Schonland will testify with passion on this one—when a company like Polaroid sees the harbor maintenance tax increasing to the point that the tax is now more than the total cost of handling a Polaroid container in the Port of Boston, we have a problem.

We are creating diversion to Canadian ports simply as a function of lack of understanding. I believe, I choose to believe Congress did not understand what it was doing to the competitiveness of U.S. exports. Perhaps that ignorance is something that the GAO report will help us all to better understand.

I would urge you to work with us and with the GAO to maintain this data base so that we can update it on a regular basis so that we can use it for further evaluation. It is a starting point, but it is only the starting point. We need to better understand why cargo is moving the way it is moving. I should perhaps point out that customs fees are in fact collected regardless of the border that is crossed. It is the harbor maintenance tax and taxes like it, the taxes that are assessed only on vessels in U.S. ports that create 92 reasons for cargo not to use the ports that we have invested in in this nation.

We are delighted that you have created this opportunity for us to testify and I would be glad to take questions at the end of the panel. Thank you.

[Statement of Ms. Aylward can be found at end of hearing.]

Mr. TAUZIN. Ms. Aylward, before you leave your testimony, page 5 you give some specific example, I know Mr. Laughlin had asked and Mr. Coble had asked for examples of the difference in the charges of United States ports and Canadian ports. Would you cite that for the record?

Ms. AYLWARD. Certainly. One of the examples that we have frequently used is the cost of for a typical container vessel entering a

U.S. port. The cargo ends up paying 75 thousand dollars in harbor maintenance taxes. At a hearing last week, John Terpstra, my colleague, the Director of the Port of Tacoma, indicated that for every dollar that a shipper in and out of Puget Sound pays in harbor taxes they benefit in one penny of maintenance dredging, so his feeling was that that was not a vital——

Mr. TAUZIN. In Vancouver there are no such taxes.

Ms. AYLWARD. No, there is no such Federal tax in Canada.

Mr. TAUZIN. Thank you, Ms. Aylward. Our second witness is Mr. John Joeckel. Mr. Joeckel.

STATEMENT OF JOHN JOECKEL, MANAGER, FLEET OPERATIONS, ASHLAND PETROLEUM COMPANY, REPRESENTING THE AMERICAN PETROLEUM INSTITUTE AND THE AMERICAN INSTITUTE OF MERCHANT SHIPPING

Mr. JOECKEL. Thank you, Mr. Chairman. I am John Joeckel, Manager of Fleet Operations, Ashland Petroleum Company. I am here today representing the American Institute of Merchant Shipping and the American Petroleum Institute. We have joined together for the purpose of today's hearing because of the extraordinary importance and substantial impact current and future user fees and taxes have and will continue to have, on the viability of the maritime community and its continued ability to provide American businesses and ultimately, the general public with low cost, efficient, and reliable transportation services.

The GAO found that in fiscal year 1991, a total of 11.9 billion dollars in Federal revenue and agency reimbursements were collected from the maritime industry. Another 28 assessments were pending implementation and therefore were not included in the total. Although we strongly support the intent of the GAO report in compiling the cost impact on our industry from current Federal taxes, it is important that you are fully aware that this industry will face severe cost impacts from newly proposed Federal user fees and taxes, such as the BTU tax and the astronomical increase in the inland waterways fuel tax.

Both of these taxes are assumed in the budget resolution recently passed by the House. It is also vitally important that you be cognizant of the fact that the domestic marine industry is under an enormous cost burden in attempting to comply with various Federal regulatory initiatives, such as the Oil Pollution Act of 1990 and the Clean Air Act Amendments of 1990. Costs from new or increased taxes, combined with regulatory compliance requirements will severely erode the ability of the domestic maritime industry to provide jobs and sufficient capital investment to ensure long-term viability of this lowest cost, environmentally sound mode of transportation.

At my company, we are faced with almost 100 million dollars in expenditures to phase out our single-hull barges and replace them with double-hulls as required by OPA 90. At the same time, we will be seeing our annual Federal fuel tax bill increase from 900,000 dollars in 1992 to 8.1 million in 1997 when the BTU and waterways taxes are fully phased in. That is 8.1 million dollars that would otherwise be reinvested in new equipment and jobs.

If an increase in the fuel tax is enacted, the impact on waterway-related industries would be devastating. The low cost of waterway transportation is valuable to America's industries and agriculture which rely on the waterways to move substantial quantities of raw materials, such as coal, farm crops, and oil products cost efficiently from origin to destination. With the addition of a new one dollar a gallon fuel tax and an almost nine cent a gallon BTU tax, water transportation costs would escalate dramatically with exports, investments, and employment being adversely impacted by the substantial direct costs not only from the enormous secondary and indirect costs rippling throughout the entire economy.

The costs of goods and services will increase and may reignite the flames of inflationary pressures. These taxes will weaken the competitive position of U.S. businesses in world markets, particularly for coal and grain, by increasing the price of exported goods, by potentially reducing domestic jobs that depend upon the export markets and by increasing our trade deficit.

The combination of user fees, taxes, and other charges greatly concerns the owners and operators of both deep-draft and shallow-draft vessels. The BTU tax will increase the base cost of bulk and manufactured goods slated for the export market. Add to this base cost the waterways transportation costs of moving that cargo to an export port, we will see that commodity priced out of the overseas marketplace. Therefore, not only do vessel owners and operators have concern with the increased direct cost to their operations from increased fuel costs, but the indirect and secondary impacts could substantially reduce their domestic customer base as a result of a reduction in export tonnage.

For example, if bulk coal or grain is priced out of the world marketplace, there will be a reduction in the number of inland river barges required to move those commodities from the U.S. heartland to Baton Rouge and New Orleans for trans-shipment to deep-draft vessels. With the reduction of export tonnage, there will be a corresponding reduction in the need for deep-draft vessels in Baton Rouge and New Orleans to load these commodities destined for the world marketplace.

The scenario translates directly into laid up barges and ships, lost employment and lost revenues to vessel operators, port authorities and the shipyards and stevedoring operations that service these vessels. Also, in international trade, U.S. flag operators are already at a distinct cost disadvantage against their foreign competition in a number of areas. Imposition of direct user fees for inspections or examination and other fees, which are substantial, further degrades the competitive position of U.S.-flag companies.

Moreover, the inland waterways fuel tax conflicts with environmental objectives by shifting from the most environmentally friendly and fuel efficient transport mode to less efficient transporters. A typical Ohio River oil products tow, for example, will carry over 150,000 barrels of cargo. It would take 750 tanker trucks or 315 rail cars to transport that same volume.

Yes, the BTU tax and the Inland Waterways tax concerns the maritime community greatly in relation to direct costs, as well as from the indirect and secondary cost perspective. However, increases in harbor maintenance fees, vessel tonnage taxes, direct

and indirect Coast Guard user fees and customs user fees are of additional concern.

Implementation and/or the increase of direct user fees or taxes will further degrade the competitive position and long-term viability of the inland river transporters and the U.S.-flag oceangoing vessel companies. As I testified last week, I represent an industry which is being smothered by regulations arising from OPA 90 and other environmental statutes. Compounding this situation with increased user fees and other taxes may result in driving good, environmentally responsible companies out of business.

We urge the members of these two subcommittees to acknowledge and understand the dire implications of the cumulative cost impact of a broad-range of regulatory requirements, user fees, and taxes currently imposed or scheduled to be imposed on the maritime sectors. Thank you.

[Statement of Mr. Joeckel can be found at end of hearing.]

Mr. LAUGHLIN. The next witness will be Mr. Joseph Farrell. Mr. Farrell, I would remind you that your entire statement is made a part of this record and if you could summarize it, I would appreciate it. Thank you very much.

STATEMENT OF JOSEPH A. FARRELL, PRESIDENT, AMERICAN WATERWAYS OPERATORS, ALSO REPRESENTING THE NATIONAL WATERWAYS CONFERENCE, INC.

Mr. FARRELL. Thank you, Mr. Chairman. I am Joe Farrell, President of the American Waterways Operators, and I am also privileged to combine our testimony with that of the National Waterways Conference which is a trade association comprised of about 400 members all along the banks of the inland rivers of the United States.

For several years, Mr. Chairman, we have attempted to get the Congress attention to the concept of user taxes without any success, and we are delighted and commend you for the effort that has produced the GAO study on this matter. Here you have 10 or 12 billion dollars assessed in user fees or user taxes against the maritime industry. While I realize this committee can't reach far enough to get a comprehensive analysis of all user taxes now imposed by the Federal Government, that badly needs doing.

Just one illustration: In the Reagan Administration, I recall well that the Secretary of Transportation boasted that 90 percent of the Department of Transportation's budget was paid for by user taxes. There is a gross injustice in these taxes in our view, Mr. Chairman.

About 20 years ago, I suppose toward the end of the Vietnam era, it became increasingly difficult for members of Congress and the Executive Branch of government to raise personal income taxes. That got more and more difficult as time went on, and yet the Federal Government needs money. And one way that they have resorted to is to impose user taxes and then, increase those taxes. You pick off essentially one sector of American society at a time. It is a form of taxation without adequate representation.

So we hope that what you have done regarding this study will produce some badly needed results in this particular area. Specifically, just to make a comment about the proposed increase in the

inland waterways fuel tax of 525 percent, you should understand that our calculations show that that would confiscate 25 percent of the revenues of the inland towing industry. I don't know of any industry in America that can withstand confiscating a quarter of its revenues.

We have concluded that this particular part of the President's economic package was thrown together in haste, that it was subjected to no analysis as to consequences. It appears that the President agrees with us. In a recent interview with CBS News he said there was no intention to do this sort of thing and that needed to be revisited. And your colleagues in the other chamber last week voted 88 to 12 to remove this tax from the overall package.

As a matter of fact, in our view the Administration has this backwards. The President has asserted that the government needs to invest in high tech and in people and an infrastructure, and our industry constitutes the great majority of maritime infrastructure. And rather than tax us to death, it would seem prudent and beneficial to invest further in this mode of transportation.

All through our history, Mr. Chairman, the Federal Government has invested in infrastructure, commencing in to the early 19th Century in the Erie Canal, the land grants to the railroads, President Eisenhower's interstate highway network, and in the '30's the beginning of the great projects of locks and dams on the inland rivers. These are not subsidies; they are investments. This President seems to understand that. And those investments through our history have produced a cornucopia of benefits for our citizens. Thank you.

[Statement of Mr. Farrell can be found at end of hearing.]

Mr. LAUGHLIN. Thank you. And next Mr. Schonland, Manager of Trade Relations, Polaroid Corporation. Mr. Schonland, and your statement is a part of this record.

STATEMENT OF ROD SCHONLAND, MANAGER, TRADE REGULATIONS, POLAROID CORPORATION, REPRESENTING THE NEW ENGLAND SHIPPERS ADVISORY COUNCIL AND THE AGRICULTURE OCEAN TRANSPORTATION COALITION

Mr. SCHONLAND. Mr. Chairman and members of the Subcommittee, my name is Rod Schonland. I am the Manager of Trade Regulations for Polaroid Corporation, headquartered in Cambridge, Massachusetts, and with facilities at numerous sites throughout New England. I am appearing today on behalf of the New England Shippers Advisory Council, and it is in that capacity that I am here today to discuss the impact on our members of Federal assessments on trade movements, and particularly, the Harbor Maintenance Tax.

The New England Shippers Advisory Council is a group of more than 140 New England companies that ships through the Port of Boston and other New England and northeast ports. Many of our members are major U.S. exporters and processors of goods which are entered at these ports.

My testimony today also reflects the views of another organization, the Agricultural Ocean Transport Coalition whose member-

ship across the United States includes growers, processors, suppliers and vendors to the farm, forest and fiber agriculture industry.

The Committee has done a service to the shipping community in requesting the GAO report on Federal assessments levied on commercial vessels. This report demonstrates the sheer magnitude of the burden on trade and competitiveness posed by 119 different assessments by 12 different agencies on the movement of goods through the ports of the United States. As Congress considers the Administration's tax and budget proposals to address the deficit, it is imperative that these assessments also be reevaluated. True deficit reduction depends upon long-term productivity and international competitiveness.

The unintended consequence of expanding so-called user fee taxation on trade movements is the distortion of trade and the potential relocation of the country's productive assets. This basic fact has been recognized by Republican and Democratic Administrations alike with respect to tariffs under the Uruguay Round and NAFTA negotiations. The current, and possibly increasing, levels of non-tariff assessments on commercial vessel trade contradict that premise.

Although our groups are deeply concerned about the cumulative effects of these taxes, I would like to focus my testimony on one of the user fees identified in the GAO study, the Harbor Maintenance Tax. This tax was tripled in 1990 to its current level of .125 percent of the value of cargo, despite explicit assurances by the Senate Finance Committee in 1986 that increases would not occur. At this new level the tax is generally unfair and especially burdensome to New England interests.

The Administration has now identified this fee as an element of its deficit reduction program, estimating that collections will increase by 165 million dollars over four years through the allocation of trust fund moneys for compliance.

U.S. exports have played a major role in supporting the recovery of our economy. Yet, this tax effectively penalizes exports. The additional expense invariably is reflected in higher prices of U.S. products in foreign markets, thus putting U.S. products at a competitive disadvantage.

The assessment is also contrary to the goal of correlating a user fee to the value of the services provided. Since the time that the tax was tripled in 1991, supposedly to account for 100 percent of the Army Corps of Engineers' operation and maintenance costs, instead of 40 percent, a substantial surplus has accumulated in the Harbor Maintenance Trust Fund.

It is our understanding that, at the end of fiscal year 1992, there was a surplus of more than 120 million dollars in the fund. This surplus has accumulated despite the fact that compliance levels have been below 50 percent; full compliance at the current rate of .125 will succeed only in increasing the amount of surplus further. On the other hand, based on our calculations of potentially collectible Harbor Maintenance Tax income, derived from the Corps of Engineers' own data, the full recovery of the Harbor Maintenance costs can be met at the previous assessment level of close to .04 percent. Increasing a user fee for those who pay, in order to offset

the lack of income from those who don't, is poor tax policy and grossly unfair.

Increasing compliance at higher assessment levels in order to increase a surplus is even worse. I would like to stop; I am going to run out of time.

[Statement of Mr. Schonland can be found at end of hearing.]

Mr. LAUGHLIN. Thank you, Mr. Schonland. Mr. Farrell, I couldn't agree more with your statement, investments in infrastructure is not a subsidy. I couldn't agree more, but would you also agree that investments in infrastructure is not pork barrel politics? And I am very serious when I ask that.

Mr. FARRELL. My response is serious, Mr. Chairman. Of course, that is right.

Mr. LAUGHLIN. The reason I ask that, I think it is incumbent upon your industry and the other industries that are sitting here asking us to help you on these fees that you have been subjected to, that sometimes you take people to task in the media, at the newspapers and at the television stations and radio stations, that these type of projects are pork barrel. And I think you can go throughout this committee on both sides of the aisle and find that there is members here that understand the need for a good sound inland water system, and then we get some jerks across the street who get up and say that because we are trying to improve the waterway systems, it is pork barrel politics. Do you follow what I am talking about?

Mr. FARRELL. I sure do.

Mr. LAUGHLIN. And so I am passing it back to you. You are here asking us for tax relief. And I think you have got a sympathetic audience in this committee, and it certainly appears that you got far too many user fees, but at the same time I think you all have an obligation to speak up. If you truly believe that this type of investment in infrastructure is not a subsidy and is not pork barrel but indeed an investment in America as you tell us—I am just passing the buck back to you. There is some things that your industry should do.

Mr. FARRELL. Mr. Chairman, we have been doing that for years. You have to—or at least I hope you can understand—in comparison to the Congress and the Executive Branch of government, the American Waterways Operators disappear from view. I would be happy to send you statements, speeches, articles and so forth where we have addressed this subject before. I have absolutely been astonished through the years that the government does not seem to be able to come to grips with the whole subject of taxation. It is a bipartisan disease, if I may. This President talks about raising personal income taxes for 1.2 percent of Americans. The Americans incidentally most people are happy to hate: the wealthy. And in the Reagan years we recall all too well the statement, "No more taxes, read my lips." I mean, it is time that the government took responsibility for what it is doing. Earlier you and your colleagues were talking about user taxes that collect eight thousand dollars and another said that collect 51 thousand dollars, and it is suggested that maybe something ought to be done about that. Why don't you act and stop that?

Mr. LAUGHLIN. Now, Ms. Aylward and for Mr. Schonland, also, have either of your organizations made any attempt to track the loss of business that may have occurred through rerouting imports of commodities through Canada. Both of you are up in that region of our country?

Ms. AYLWARD. Yes, we have. It is very difficult to do because unfortunately the U.S. Government does not collect the data. We have done the best we can, anecdotally, talking with our customers, and we estimate that a good 10 to 20 percent of cargo that could and would otherwise be moving through the Port of Boston is moving across the border through the Port of Montreal. However, it is difficult to document that statistically because the data bases simply don't gather the information, and one of the follow-ups that we might suggest from the GAO is to work with Customs to generate that information. It is something we would be glad to work with you further on. Rod, I don't know if you want to expand on that.

Mr. SCHONLAND. I would like to expand on it slightly to say it is anyone's best guess as to how much cargo is diverted to Canada. And it would be both imports and exports by the way. I would say 20 to 30 percent is not an inaccurate figure. I would also like to emphasize the fact that all this cargo diversion via Canada goes on the highways. It is that much additional burden going back and forth on the U.S. roadways. Also, typically that cargo is being driven by a Canadian truck driver, not a U.S. national, and that is again an economic dis-incentive and a consequence of this tax.

Ms. AYLWARD. And the greater pain of that, both for us and the ports of the Pacific Northwest, is you are talking about ports that have natural deep water, and, therefore, don't directly benefit from the dredge and maintenance fund.

Mr. SCHONLAND. I would also like to suggest further not too far down the road as the infrastructure in the Mexican ports improves, they will be taking business away from Texas and California.

Mr. LAUGHLIN. OK, Mr. Stupak says he has no questions because he has already talked to the person he needed his information from. So that concludes the questions we have for this panel and we thank you very much for your participation. We have three more witnesses on another panel. I am sorry, they are on a different page. So I got confused. Here is what we have got to do though. Mr. Stupak and I got to go vote. We are going to go vote. You all sit tight, relax, do whatever you want. We will be back in five to eight minutes. (Recess.)

Mr. LAUGHLIN. Let reconvene the panel that was seated. Let me first apologize to the three members of the panel that I did not recognize because they were on the second page. And I should have at least used good judgment and turned the page and seen their names there, so I apologize to each of the three of you. And let me assure Mr. Farrell that I wasn't picking on him individually or his company individually with my comments, but I think it is important for those of you who are dependent upon the infrastructure of America to sometimes rise up to the rescue of those who are willing to cast the votes that it takes, and sometimes we get lambasted, so it is a good mutual society to have together. And at this time I

will recognize Mr. Kendell Keith, President, National Grain and Feed Association. Mr. Keith.

STATEMENT OF KENDELL W. KEITH, PRESIDENT, NATIONAL GRAIN AND FEED ASSOCIATION

Mr. KEITH. I appear today before you to testify about the damaging effects of Federal trade taxes on both the domestic economy and the U.S.'s ability to compete internationally.

We are particularly concerned about several provisions contained in the budget proposal, including the one dollar per gallon tax on diesel fuel that will be imposed on the towing industry.

The GAO study shows that waterborne commerce already bears a heavy burden of taxes and the so-called user fees. Assessments levied by 12 Federal agencies on waterborne trade total 1.9 billion dollars in fiscal year 1991 alone.

Getting this down to how it affects business, a typical 50 thousand metric ton shipment of corn from New Orleans to Japan currently incurs 120 thousand dollars in tax and fees. The proposed one dollar increase in inland waterways fuel tax would add 274 thousand dollars in cost to such a shipment, or about 8 dollars a ton, about a tripling of the tax burden on commerce.

Our opposition to the proposed 525 percent increase in the water tax and the fuel tax is based on the following reasons: First, the one dollar per gallon will lead to significantly decreased farm income. We think the cost to a typical commercial corn farm in the Midwest would be about 5 thousand dollars annually. Secondly, the one dollar per gallon tax is applied unfairly to only one segment of inland waterway users and beneficiaries.

Third, we think it is based on a faulty economic theory. The proposal as presented estimates revenues in 1997 to be 460 million dollar, but this estimate is based upon an assumption that volume will remain constant or even increase slightly, which is, of course, ridiculous.

The market volume will no doubt fall and we think maybe dramatically. We see a potential for a fall in grain exports by as much as 700 thousand tons. I think that is conservative.

There is also a very good reason to believe that the net revenue increase that would actually be realized by government has been vastly overstated. In looking at the proximity of the corn belt region to the river system, we expect midwestern corn prices to drop from four to eight cents per bushel, depending on location. If you assume an average of five cents a bushel decline which we think is reasonable, based on U.S. Department of Agriculture's own analysis, we conclude that a five cent per bushel decline in corn products will lead to additional government costs in the range of 300 to 500 million dollars.

We do believe that a more careful assessment of the full impacts of this tax will demonstrate that the Federal Government could actually lose net revenue.

As a final point, we are very concerned about how such a heavy tax will affect U.S. cost competitiveness with our major competitors. Looking at total delivered cost, the U.S. farmer today only has a slight advantage of six dollars per ton over foreign major com-

petitors in corn production and marketing, and that is the grain where we have the greatest comparative advantage today. The competition is even more challenging with the other grains.

This heavy taxation of waterways would add effectively about three dollars per ton to the delivered price, which means with this one action, the U.S. Government is taking away 50 percent of our comparative advantage in the one grain where we have the greatest advantage today.

Our association and its members are very concerned about the anti-competitive and anti-growth aspects of this proposal. The heavy taxation of business, especially the export business, we believe is a fundamental economic mistake in public policy. In agriculture, if we lose our ability to compete internationally, we cannot grow because the real growth in food consumption is outside U.S. borders. If our economy cannot compete, we will not grow, we cannot create jobs, and we won't be profitable, and we can't pay corporate taxes. We think it is absolutely true the government can tax our industry out of business.

We can't overemphasize this point we don't think. The strategy of taxing exports is a fundamental mistake in developing a sound, long-term strategy of economic growth with the United States. Thank you. I will look forward to the questions.

[Statement of Mr. Keith can be found at end of hearing.]

Mr. LAUGHLIN. Thank you, Dr. Keith. Next witness will be Mr. Channing F. Hayden, Jr., Vice President, New Orleans Steamship Association, and President, National Association of Maritime Organizations.

STATEMENT OF CHANNING F. HAYDEN, JR., VICE PRESIDENT, NEW ORLEANS STEAMSHIP ASSOCIATION AND PRESIDENT, NATIONAL ASSOCIATION OF MARITIME ORGANIZATIONS, INC.

Mr. HAYDEN. Thank you, Mr. Chairman. I am representing both of the groups that you mentioned. The Steamship Association represents 60 owners, operators, agents and stevedores on the lower Mississippi River. And the National Association of Maritime Organizations is a federation of 13 maritime associations from all four U.S. coasts. And they both share the same concerns.

We applaud your continuing effort to investigate the morass of taxes plaguing the maritime industry. You have assumed a very important leadership role in the first ever compilation of maritime user taxes. We commend you and thank you for a job well done.

Two years ago, I had the privilege of testifying before the Oversight and Investigations Subcommittee of the House Merchant Marine and Fisheries Committee on this very same subject. Much of that testimony is germane to this hearing, so rather than burden the record, I just refer your attention to it.

You have received an excellent, comprehensive report from the Government Accounting Office as a result of your efforts and the work of Representatives Tauzin and Saxton. Until now, there has been nothing to substantiate the magnitude of the user fees that burden the maritime industry and the onus they place on U.S. products in world markets. But as important as the GAO study is, it must be viewed as the solid foundation on which to further the

process. It must become the basis for an economic impact study of maritime user fees.

The study we suggest should have two separate parts. First, Congress should study existing user fees, excluding Customs duties, to determine how the current two billion dollars in taxes has affected the competitive position of U.S. products. Next, Congress should study, before implementation, the economic impact of the user fees proposed by the Administration and those authorized for the Coast Guard and FMC.

Congress and your subcommittees particularly should carefully study both aspects of the Administration's proposed maritime user fee package. The Administration has proposed to continue the tonnage tax and harbor maintenance tax rather than phase them out as Congress originally intended. The study we have proposed on current user fees should identify the negative economic effects of such a plan.

In addition, the Administration has recommended increasing the inland waterways fuel tax by a dollar a gallon. We have already heard what the impacts of this may be, so I would just suggest to you that cloaked in the guise of a user fee, the increase in the inland waterways fuel tax is no more than a tax on farmers, a tax on coal miners, a tax on every worker in the United States whose job depends on exporting U.S. products to the world market via our river system.

Considering all of the above, we have several recommendations for you. First, Congress must study, on a macroeconomic level, the impact of current maritime user fees, including the overall impact of these taxes on the competitive position of U.S. exports on world markets, the overall effects these taxes have on Federal revenues. We suspect, for example, that a one dollar increase in inland waterways fuel tax may cause an equal or greater reduction in income taxes and/or a drop in grain exports, causing an increase in farm subsidies, and some of the other witnesses have already confirmed that.

The study should include the negative multiplier effect of these taxes. You will notice I didn't say anything about trickle down, that is not in vogue anymore, but I think there is a negative multiplier that we have to look at so that the next net consequences of the taxes can be evaluated.

The study should measure the net positive impact a reduction or elimination of those maritime taxes may have on the economy. The study we are recommending would expand on the Maritime Administration's recent analysis of the port industry. MARAD found that in 1991, port industry operations were responsible for directly and indirectly 1.5 million jobs; 51.8 billion dollars in total personal income; and 70 billion dollars in total contribution to gross domestic product.

MARAD's analysis did not include the farmer who grew the grain, the miner who dug the exported coal, or the worker who assembled the tractors that were sold overseas. MARAD's analysis, coming as it does at the same time as the GAO study, reinforces the clear and substantial need for a comprehensive economic impact study of U.S. foreign trade and the net positive benefits

that will be produced by controlling or reducing the user tax burden on this vital segment of the American economy.

Next, we recommend that Congress require the same kind of detailed economic analysis for new maritime user fees, both those that are non-implemented but currently authorized and new fees before Congress enacts them.

Finally, we are recommending that Congress extend the GAO study to include state and local maritime fees. Thank you for allowing me to appear before you today and I will answer questions when it is appropriate, Mr. Chairman.

[Statement of Mr. Hayden can be found at end of hearing.]

Mr. LAUGHLIN. Thank you. And the next witness will be Mr. Anthony Ianello, Jr., Executive Director, Illinois Internal Port District, the Port of Chicago. Mr. Ianello, your statement is part of the record, please proceed with your summary.

STATEMENT OF ANTHONY IANELLO, EXECUTIVE DIRECTOR, ILLINOIS INTERNAL PORT DISTRICT, THE PORT OF CHICAGO

Mr. IANELLO. Thank you, Mr. Chairman and members of the committee. I thank you for the opportunity of testifying today. I have been asked here to discuss the distinct characteristics of the Great Lakes Ports, the impact of federally mandated user fees and how they relate to maritime commerce on the Great Lakes and the availability of alternative modes of transportation. My views are based on the fact that I am the Executive Director of the Port of Chicago.

We have the responsibility for the public maritime facilities and the navigable waterways within the corporate city limits of the city of Chicago. May I say that we are totally self-sufficient corporate entity. By that I mean we receive no tax dollars, and we levy no taxes.

Therefore, I believe I can speak also for the private sector of my area. The Army Corps of Engineers designates that as the Port of Chicago. That includes all of Cook County, northern Illinois and even northern Indiana.

What I am saying indeed also reflects I believe the views of the maritime interests of all eight Great Lake States.

A distinctive characteristic of those states, of that and the ports that are in them, is our close proximity to Canada. We compete directly with nearby ports of another country. A ship can dock at Detroit or across the river at Windsor. Grain can be exported through Duluth or Thunder Bay. The same cargo can start its journey at Chicago or at Montreal.

So for us in the Great Lakes, U.S. costs imposed on waterborne carriage can lead not only to the loss of traffic to competing land modes and to coastal ports in the U.S., but also to diversion of shipments through Canada. The most recent Maritime Administration study relating to this available to us reports that in 1989 more than 11 billion dollars of U.S. international trade moved through Canada.

The subcommittees are to be commended on the GAO study identifying the 117 assessments; however, the GAO study does not reference the Canadian taxes, fees and tolls born only to ships to the

Great Lakes Ports except for a footnote that the Canadian government expects to realize some 54 million dollars in 1992.

Let me say that the St. Lawrence Seaway has never achieved the promise predicted for it or anticipated when it was planned in the '50's. Containerization held great promise as these shipping containers first came into limited use and then general use. Larger ships were built to take advantage of this shipping innovation. Unfortunately the new breed of ships are too large to pass through the seaway locks and virtually all container traffic we lost it to the coastal ports.

The Staggers Act provided another serious blow. Deregulation of trucking and the railroads catapulted them into the container business. Double-stacked unit trains have eliminated all but bulk cargo to the Great Lakes.

The consolidation of the eastern railroads into the Conrail system strengthened the railroads' position even more. The Commerce Commission permitted the abandonment of lines of lesser profit, in effect, creating a single, east-west trunk line service.

They also allowed for the purchase of the Milwaukee Road which in turn is owned by the Canadian Pacific Railroad. Today, grain from Danville, 150 miles south of Chicago, passed the Port of Chicago on the Canadian-owned, multi-line service en route to Montreal where it is loaded for shipment to international overseas ports. All this has contributed to the present state of the Great Lakes shipping. Increased levies such as the Harbor Maintenance Tax can only make matters worse and further reduce the competitiveness of Great Lakes ports.

Let me say that Chicago is a unique city in that that it has a major marine terminus on the St. Lawrence Seaway. Yet it also provides year-round service directly from the Great Lakes to the Gulf of Mexico vis-a-vis the Illinois and Mississippi waterways. Our river service also faces direct competition from trucks and railroads. In this multi-transport role we share the concerns of the seaway ocean-going vessels, Salties, our fellow Lakers, and the barge interest of the inland waterways.

Prior representatives have graphically depicted the proposed inland waterways fuel tax, an increase in the vessel tonnage tax, Customs user fees, Coast Guard user fees, the work tax on the Merchant Marines, seaway tolls, multi-jurisdictional pilotage concerns, and another is the Shipbuilding Reform Act introduced last session and finally the harbor maintenance tax as these taxes and fees relate to their individual situations.

In the case of harbor maintenance, I want to emphasize that I am speaking for the entire American Great Lakes Ports Association membership. The association includes ports located in Indiana, Ohio, Michigan, Minnesota, Pennsylvania, Wisconsin and New York.

We in the Great Lakes community feel greatly disappointed with the large and unwarranted increase in this burdensome tax imposed in 1991. After years of full Federal financing of deepwater harbor maintenance, because of the general benefit to the U.S. economy and its people, the tax of 4 percent was imposed in 1986 to cover 40 percent of the Army Corps spending. This was done with the understanding that the tax would never be raised, because as

stated by Senate Finance Committee at the time, higher rates would disadvantage the competitiveness of the American products and commodities in the international marketplace.

We were told this tax was necessary in 1993 and would never be increased. It is currently .125. For the ports of the northern tier states, especially those of the Great Lakes, the penalty is a severe one. A ship destined for Lake Erie can go to Toronto and escape the levy. A ship for Detroit can go to Toledo. A ship for Detroit or Toledo can go to Windsor. A ship for Chicago, Burns Harbor, Milwaukee can escape the payment by going to any Canadian port. In the Great Lakes and Pacific Northwest, unfortunately, shippers have an easy alternative, one that will cost U.S. cargo and jobs.

May I say in summation we agree with the Presidential proposal to authorize the annual expenditure by customs for increase and enforcement of the harbor maintenance tax. Obviously there are many serious issues which will impact the Great Lakes, and I will welcome the opportunity to discuss them further.

[Statement of Mr. Ianello can be found at end of hearing.]

Mr. LAUGHLIN. Thank you very much. Since I have asked my questions prematurely, I will now recognize the gentleman from Michigan, Mr. Stupak.

Mr. STUPAK. Thank you, Mr. Chairman. Mr. Ianello, a couple of questions if I may. I believe Mr. Lipinski and I are the only ones who represent Great Lakes ports on this committee, but what are the fees that are levied on vessels calling on Canadian ports versus being levied on vessels which would visit Great Lake ports? Are there differences, and what are they?

Mr. IANELLO. OK, if I can find something here. There is no national Canadian tax. The Canadian government looked into a study a year ago, I believe, to increase and levy a tax; however, the tax was supposed to raise 25 million dollars in 1991 and it applied to all cargos, U.S. or Canadian. However, after review, the Canadian government never imposed that tax.

Mr. STUPAK. A quick follow-up if I may. You mention that the Canadian government now takes in, I thought you said about 200 million in taxes, 54 million go directly to the Canadian government. Where is that tax source? Where is that coming from?

Mr. IANELLO. That is the seaway tolls, piloted from one end to the other.

Mr. STUPAK. Thank you, nothing further. Thank you, Mr. Chairman.

Mr. LAUGHLIN. I want to thank all the panelists today. This has been a very informative hearing and I hope it will prove to be productive. Since there are no more questions and I have examined the last page, there are no more panelists, we thank you very much and the hearing is adjourned.

[Whereupon, at 12:38 p.m., the subcommittees were adjourned; and the following was submitted for the record:]

Before the Subcommittees on Coast Guard and Navigation
and Merchant Marine,
Committee on Merchant Marine and Fisheries,
House of Representatives

For Release
on Delivery
Expected at
10 a.m. EST
Thursday
March 25, 1993

TRANSPORTATION

Federal Assessments Levied on Commercial Maritime Industry

Statement of
John H. Anderson, Jr. Associate Director
Transportation Issues
Resources, Community, and
Economic Development Division

Mr. Chairmen and Members of the Subcommittees:

We appreciate the opportunity to testify on assessments (i.e., user fees, taxes, and other charges) that have been levied on the commercial maritime industry. The commercial maritime industry is one of the major transporters of cargo critical to the economy of the United States. About 1.1 billion tons of domestic cargo, 600 million tons of imported cargo, and 400 million tons of export cargo are transported through U.S. waterways and ports annually.

We are here today to summarize information from our recently issued report to you on federal assessments levied on the commercial maritime industry.¹ You were concerned about the total number and amount of assessments (excluding fines and penalties) that have been levied on the commercial maritime industry. Our report provides detailed information on the agencies levying assessments, trends in amounts collected, and other information on assessments. The purpose of our review was not to evaluate the impact of the assessments on the industry. However, the information in our report will provide baseline data for use by policymakers and analysts to undertake such analysis.

In summary, we found that

- 12 federal agencies collected almost \$11.9 billion in fiscal year 1991 for 117 diverse assessments levied on the commercial maritime industry. Of the 117 assessments, 92 are specific to the maritime industry, such as a commercial vessel fee levied only vessel owners for commercial vessels entering into U.S. Customs territory from a foreign port. The remaining 25 are also levied on at least one other mode of transportation, such as Custom duties levied on shippers who import commodities entering the United States, regardless of the mode used to transport them.
- Customs duties collections on commodities transported by vessels--almost \$10 billion in fiscal year 1991--accounted for the bulk of all maritime industry assessments. However, preliminary 1992 figures show that Customs duties collected from the maritime industry decreased about 25 percent from fiscal years 1990 through 1992. On the other hand, the amounts collected for all other assessments on the industry have increased about 21 percent over the last 4 years. In addition, two agencies plan to levy 30 new assessments on the industry that are expected to generate about \$25.7 million in additional collections in this fiscal year.
- In the majority of cases, these assessments were paid by a vessel owner or operator. The purpose(s) of the assessments were to generate revenue for a trust fund, reimburse an agency for expenses incurred in providing a service, or generate revenue for the General Fund of the U.S. Treasury.

BACKGROUND

Before discussing these facts in more detail, I would like to briefly provide some background on how we compiled information on these assessments. First, we defined the commercial maritime industry to include vessel owners, operators, importers, and exporters that move commodities by vessels engaged in domestic and international commerce. Through discussions with officials from various federal agencies, the maritime industry, and congressional staff from oversight committees, we identified 87 federal agencies from among the roughly 300 agencies that are in existence and that

¹Maritime Industry: Federal Assessments Levied on Commercial Vessels (GAO/RCED-93-65FS, Mar. 5, 1993)

we believed had the potential to levy assessments on the industry. We then sent a questionnaire to the 87 agencies to determine how many of them levied such assessments.

We identified 12 federal agencies that levy at least one assessment specific to the maritime industry. We considered an assessment to be specific if, among other things, it would be levied only on vessels and not levied on any other mode of transportation. For example, the Federal Communication Commission's Great Lakes Radio Agreement inspection fee is levied on owners or operators of vessels only. We obtained information on these assessments as well as other assessments that these agencies levy on vessels and any other mode of transportation. We refer to these latter assessments as nonspecific to the maritime industry. For example, the Customs Service levies specific assessments, such as the commercial vessel fee, which is an inspection fee for commercial vessels entering into U.S. Customs territory from a foreign port. Customs also levies nonspecific assessments, including Custom duties, that are assessed on commodities entering the United States, regardless of the mode that is used to transport them.

TWELVE AGENCIES LEVY ASSESSMENTS
ON THE MARITIME INDUSTRY

As shown in Table 1, 12 agencies levied 117 assessments on the maritime industry and collected about \$11.9 billion for these assessments in fiscal year 1991.

Table 1: Number of Assessments and Amounts Collected by Twelve Federal Agencies in Fiscal Year 1991

Agency	Number of assessments	Dollars collected
Animal and Plant Health Inspection Service	3	\$ 5,400,000
Coast Guard	10	1,900,000
Customs Service	14	10,900,000,000 ^a
Federal Communications Commission	7	5,900,000
Federal Grain Inspection Service	1	672,000
Federal Maritime Commission	13	51,000
Internal Revenue Service	5	457,000,000
Interstate Commerce Commission	18	8,000
Maritime Administration	10	15,000,000
National Oceanic Atmospheric Administration/National Marine Fisheries Service	18	4,400,000
Panama Canal Commission	17	466,200,000
Saint Lawrence Seaway Development Corporation	1	0 ^b
Total	117	\$11,856,531,000

^aAlmost \$10 billion of the \$10.9 billion were for Customs duties.

^bThe Saint Lawrence Seaway Development Corporation rebates 100 percent of its collections to the payor. In fiscal year 1991, it repaid a total of about \$9.2 million to payors.

The number of assessments and amounts collected varied significantly among agencies. For example, two agencies each levied one assessment--the Federal Grain Inspection Service levied a stowage examination fee and the Saint Lawrence Seaway Development Corporation collected tariffs for tolls. On the other hand, two agencies each levied 18 different assessments--the Interstate Commerce Commission and the National Oceanic and Atmospheric Administration/National Marine Fisheries Service--primarily for administrative processing services.

The Customs Service collected by far the largest amount for assessments levied on the maritime industry, even when estimated Customs duties, totalling about \$10 billion, are excluded. Customs collected almost \$1 billion in fiscal year 1991 for 13 other assessments levied on the industry. The Panama Canal Commission and the Internal Revenue Service were the second and third largest collectors, respectively, collecting just under a half billion dollars each in fiscal year 1991 for their total of 22 assessments. The other nine agencies together collected about \$34 million in fiscal year 1991 for the remaining 81 assessments.

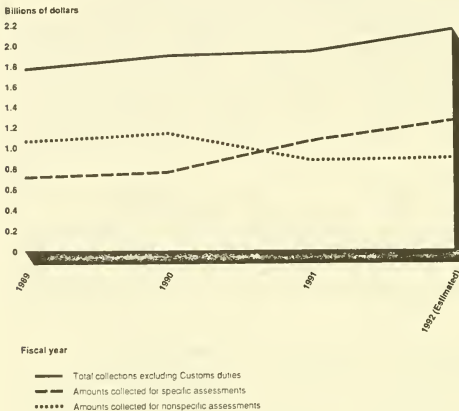
TRENDS IN AMOUNTS COLLECTED

Overall, the total amounts collected for the 117 assessments have declined from \$12.3 billion in fiscal year 1990 to about \$10 billion in fiscal year 1992 (estimated)--a decrease of about 19 percent. The decrease in amounts collected for Customs duties is largely responsible for this decline. Amounts collected for Customs duties were several times greater than the amounts collected for all other assessments. For example, in fiscal year 1991, Customs duties accounted for about 84 percent of the total dollars collected for all 117 assessments. Amounts collected for Customs duties decreased from about \$10.4 billion in fiscal year 1990 to about \$7.8 billion in fiscal year 1992 (estimated)--a decrease of about 25 percent. Customs Service officials told us that this decrease was primarily due to changes in various trade agreements and not to a decline in the volume of commodities being imported.

When we excluded Customs duties from all assessment collections, the remaining amount collected rose from \$1.8 billion in fiscal year 1989 to \$2.1 billion in 1992 (estimated)--an increase of about 21 percent. We analyzed these other assessments further to determine the numbers that were specific and nonspecific to the industry. We found that 92 of the assessments are specific to and paid only by the maritime industry, while the remaining 24 assessments, excluding Customs duties, are also levied on at least one other mode of transportation.

Figure 1 shows the increase in the amounts collected from fiscal years 1989 to 1992 (estimated) for all assessments, excluding Customs duties. It also shows the breakout for the amounts collected for specific assessments and nonspecific assessments. The amounts collected for the 92 specific assessments have risen from \$0.7 billion in fiscal year 1989 to \$1.2 billion in fiscal year 1992 (estimated)--an increase of about 71 percent. On the other hand, the amounts collected for the 24 nonspecific assessments, excluding Customs duties, decreased from \$1.1 billion in fiscal year 1989 to \$0.9 billion in fiscal year 1992 (estimated)--a decrease of about 18 percent.

Figure 1: Total Collections and Specific and Nonspecific Assessment Collections, Excluding Customs Duties, Fiscal Years 1989-92 (Estimated)



Although we were not asked to determine the reason for increases and decreases in amounts collected for all the assessments, we found that collections for the Harbor Maintenance Fee--which accounted for about 43 percent of the \$1 billion collected for specific assessments in fiscal year 1992, was increased as required by the Omnibus Budget Reconciliation Act of 1990. The decline in the amounts collected for nonspecific assessments in fiscal year 1992 was due primarily to a decrease in the amounts collected for the Customs Service's Merchandise Processing Fee and the Internal Revenue Service's Hazardous Substance Superfund Tax--both of which accounted for about 55 percent and 29 percent, respectively, of the amounts collected for nonspecific assessments, excluding Customs duties.

TYPE OF SERVICE OR ACTIVITY ASSOCIATED WITH ASSESSMENTS

We grouped the 117 assessments into four categories based on the type of service or activity associated with the assessment. These four categories are (1) administrative processing and associated services, (2) physical services, (3) taxes, and (4) miscellaneous services and Customs duties.

Administrative processing and associated services include assessments for processing applications and other documents and issuing permits and licenses. Physical services include assessments for inspection and evaluation of equipment, commodities, and passengers. Taxes were established by the Congress for various purposes, such as generating revenue for trust funds. Miscellaneous assessments are diverse and range from Customs duties, which are levied on approximately 15,000 different commodities brought into the United States, to MARAD's annual

guarantee fee, which covers defaults and personnel and operating costs for one of its programs.

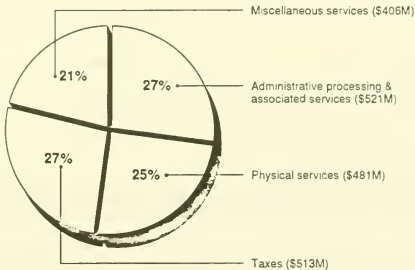
The number of assessments associated with each of these categories are

- administrative processing and associated services--74 assessments,
- physical services--30 assessments,
- taxes--6 assessments, and
- miscellaneous services and Customs duties--7 assessments.

Figure 2 shows a breakdown for the \$1.9 billion collected in fiscal year 1991, excluding Customs duties, and the type of service or activity associated with these assessments.

Figure 2: Type of Service or Activity Associated With Assessments, Excluding Customs Duties, Fiscal Year 1991

Dollars in millions



Note: Based on the percentage of dollars collected.

Two categories--the administrative processing and associated services category, which is made up of 74 assessments, and the taxes category, which is made up of 6 assessments--each accounted for about 27 percent of the total dollars collected in fiscal year 1991. The Panama Canal Commission's transit booking fee is an example of an administrative processing services fee. This assessment accounted for about \$13 million of the \$521 million collected in this category in fiscal year 1991. The Internal Revenue Service's Oil Spill Liability Tax is an example of a tax and accounted for about \$120 million of the \$513 million collected for taxes in fiscal year 1991. The other two categories--physical services and miscellaneous services, excluding Custom duties--accounted for 25 percent and 21 percent, respectively, of the total dollars collected.

ASSESSMENTS ARE PAID PRIMARILY
BY OWNERS AND OPERATORS

A breakdown of the 117 assessments showed that, in the majority of cases, the assessments are paid by the vessel owner or operator. Of the 117 assessments,

- 54 are paid by either the vessel's owner or operator;
- 22 are paid only by the owner;
- 17 are paid by the owner, operator, or one other party, such as a charterer;
- 13 are paid only by the operator; and
- 11 assessments, such as the Federal Maritime Commission's Automated Tariff Filing Information user registration fee, can be paid by various parties, such as the importer or exporter.

ASSESSMENTS ARE LEVIED FOR THREE PURPOSES

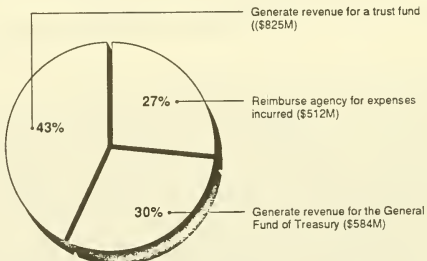
We grouped the 117 assessments into three categories based on the intended purposes of the assessments. For example, we found in fiscal year 1991 that

- \$825 million associated with 6 assessments was collected to generate revenue for a trust fund,
- \$512 million associated with 60 assessments was collected to reimburse the agency for expenses incurred in providing a service, and
- \$584 million (excluding an estimated \$10 billion for Customs duties) associated with 51 assessments was collected to generate revenue for the General Fund of the U.S. Treasury.

The categories, excluding Customs duties, and their respective percentage of dollars collected, in fiscal year 1991, are shown in Figure 3.

Figure 3: Intended Purposes of the Assessments, Excluding Customs Duties, Fiscal Year 1991

Dollars in millions



Note: Based on the percentage of dollars collected.

A few assessments accounted for a significant portion of the dollars collected in each of these categories in fiscal year 1991. For example, the Customs Service's Harbor Maintenance Fee accounted for about 46 percent of the \$825 million that was collected to generate revenue for a trust fund. In addition, the Panama Canal Commission's Tolls for Transit fee accounted for about 73 percent of the \$512 million that was collected to reimburse agencies for expenses incurred. Furthermore, excluding duties, the Customs Service's Merchandise Processing Fee accounted for about 83 percent of the \$584 million collected to generate revenue for the General Fund of the U.S. Treasury.

ADDITIONAL ASSESSMENTS ARE PROPOSED

We also queried the 12 federal agencies to determine how many had proposed new assessments as of June 30, 1992, that would be levied on the commercial maritime industry. Of the 12 agencies, only the Coast Guard and the Federal Maritime Commission had proposed additional assessments. Projected revenue from these assessments range from about \$25.7 million in fiscal year 1993 to over \$40 million in fiscal year 1997--an increase of about 56 percent.

In fiscal year 1992, the Coast Guard levied 10 assessments for which it collected about \$2 million. As of June 30, 1992, 28 new assessments were proposed. Coast Guard officials estimated that collections from these new assessments would total as much as \$25.5 million in fiscal year 1993--an increase of over 1,275 percent. One of the proposed assessments, the commercial vessel inspection fee, will comprise over half of these estimated collections--over \$16 million in fiscal year 1993.

In fiscal year 1992, the Federal Maritime Commission levied 13 assessments for which it collected about \$70,000. As of June 30, 1992, two new assessments were proposed that were estimated to increase collections by \$159,000--an increase of about 227 percent.

SUMMARY

A number of diverse assessments are currently levied on the commercial maritime industry and additional assessments have been proposed. While Customs duties are estimated to have decreased about 25 percent from fiscal years 1990 through 1992, the other assessment amounts are estimated to have increased about 21 percent from fiscal years 1989 through 1992. Our data will be useful to policymakers and analysts in their efforts to evaluate the impact of these assessments on the maritime industry.

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This concludes my prepared remarks, Mr. Chairmen. We would be pleased to respond to any questions that you or other Committee Members may have.

ATTACHMENT I

ATTACHMENT I

RECENT GAO REPORTS RELATED TO
COMMERCIAL MARITIME ASSESSMENTS

Port Development: Sponsors Have Not Used User Fee Financing to Date (GAO/RCED-89-125, May 4, 1989)

Customs Service: Administration of Tariff on Foreign Repairs to United States Flag Vessels (GAO/RCED-89-152, May 26, 1989)

U.S. Customs Service: Merchandise Processing Fee: Examination of Costs and Alternatives (GAO/GGD-90-91BR, June 15, 1990)

Customs Service: 1911 Act Governing Overtime Is Outdated (GAO/GGD-91-96, June 14, 1991)

Coast Guard: Oil Spill Liability Trust Funds Not Being Used to Pay All Allowable Costs (GAO/RCED-91-204, Aug. 12, 1991)

U.S. Customs Service: Limitations in Collecting Harbor Maintenance Fees (GAO/GGD-92-25, December 23, 1991)

(344483)

**GAO FEDERAL ASSESSMENTS LEVIED
ON THE COMMERCIAL MARITIME
INDUSTRY**

March 9, 1993

**GAO FEDERAL ASSESSMENTS LEVIED
ON THE COMMERCIAL MARITIME
INDUSTRY**

OBJECTIVES

To identify the total number and amount of user fees, taxes, and other charges ("assessments"), excluding fines and penalties, that have been levied on the commercial maritime industry.

**GAO FEDERAL ASSESSMENTS LEVIED
ON THE COMMERCIAL MARITIME
INDUSTRY**

DEFINITION

We defined the commercial maritime industry to include vessel owners, operators, importers, and exporters that move commodities by vessels engaged in domestic and international commerce.

GAO **FEDERAL ASSESSMENTS LEVIED
ON THE COMMERCIAL MARITIME
INDUSTRY**

RESULTS IN BRIEF

12 FEDERAL AGENCIES

117 ASSESSMENTS

- 92 are specific to the commercial
maritime industry
- 25 are nonspecific to the commercial
maritime industry

**GAO FEDERAL ASSESSMENTS LEVIED
ON THE COMMERCIAL MARITIME
INDUSTRY**

RESULTS IN BRIEF

\$11.9 billion was collected in FY91

- \$10 billion was for Custom duties
- \$1.9 billion was for all other
assessments

GAO FEDERAL ASSESSMENTS LEVIED ON THE COMMERCIAL MARITIME INDUSTRY

12 AGENCIES AND AMOUNTS COLLECTED IN FY91

	No. of <u>Assessm'ts</u>	Dollars <u>Collected</u>
APHIS	3	\$5.4 million
Coast Guard	10	\$1.9 million
Customs Service ¹	14	\$10.9 billion
FCC	7	\$5.9 million
FGIS:	1	\$672,000
FMC	13	\$51,000
IRS	5	\$457 million
ICC	18	\$8,000
MARAD	10	\$15 million
NOAA/NMFS	18	\$4.4 million
PCC	17	\$466.2 million
SLSDC	<u>1</u>	<u>\$0²</u>
	117	\$11.9 Billion

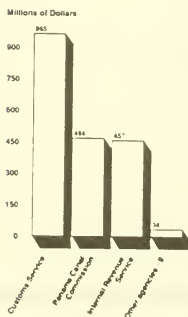
Almost \$10.0 billion of the \$10.9 billion were for Customs duties.

¹SLSDC rebates 100 percent of its collections to the pavor. In fiscal year 1991, it repaid a total of about \$9.2 million to the pavors.

Figure 1: Agencies and Amounts Collected for Assessments Levied in Fiscal Year 1991

(Millions of Dollars)

Agencies	
Customs Service	965
Panama Canal Commission	466
Internal Revenue Service	457
Other agencies - 9	34



Agencies

Fig. 1 includes collections from both specific and nonspecific assessments. However, Customs duties totaling almost \$10 billion are not included in this figure.

Other agencies are the Animal and Plant Health Inspection Service, Coast Guard, Federal Communications Commission, Federal Grain Inspection Service, Federal Maritime Commission, Interstate Commerce Commission, Maritime Administration, National Oceanic and Atmospheric Administration, National Marine Fisheries Service, and Saint Lawrence Seaway Development Corporation.

Figure 2.1: Total Collections and Comparison of Specific and Nonspecific Assessment Collections, Excluding Customs Duties, for Fiscal Years 1989 - 1992 (Projected)

(Billions of Dollars)

Fiscal Year	Total collections excluding Customs duties	Amounts collected for specific assessments	Amounts collected for nonspecific assessments
1989	1.8	0.7	1.1
1990	1.9	0.8	1.1
1991	1.9	1.1	0.9
1992 (Projected)	2.1	1.2	0.9

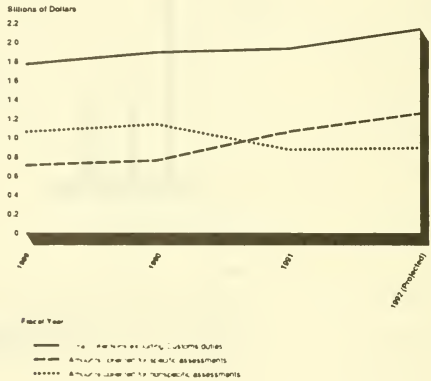
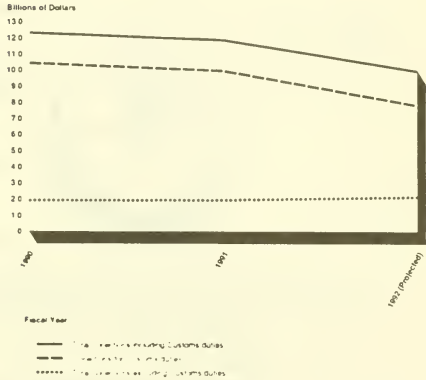


Figure 2.2: Total Collections and Comparison of Customs Duties to all Other Assessment Collections for Fiscal Years 1990 - 1992 (Projected)

(Billions of Dollars)			
Fiscal Year	Total collections including Customs duties	Collections for Customs duties	Total collections excluding Customs duties
1990	12.3	10.4	1.9
1991	11.9	10.0	1.9
1992 (Projected)	10.0	7.8	2.1



Projected collections in fiscal year 1992 for all assessments, including Customs duties, declined about 19 percent from fiscal year 1990.

Projected collections in fiscal year 1992 for Customs duties declined about 25 percent from fiscal year 1990.

Projected collections in fiscal year 1992 for all assessments, excluding Customs duties, increased about 21 percent and 13 percent from fiscal years 1989 and 1990, respectively.

Figure 3.1: Type of Service or Activity Associated with Assessments, Excluding Customs Duties, for Fiscal Year 1991

Admin. Processing & Associated Services (74 assessments)
Physical Services (30 assessments)
Taxes (6 assessments)
Miscellaneous Services (7 assessments)

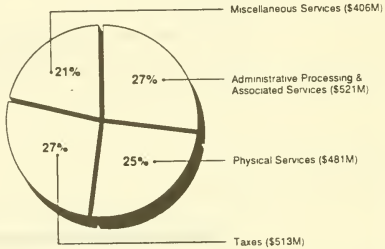


Fig. 3.1 is based on the percentage of dollars collected in fiscal year 1991.

Administrative Processing & Associated Services include assessments for processing applications and other documents, issuing permits, licenses, registrations, and any other documentation.

Physical Services include assessments for inspection, examination, and/or evaluation of equipment, commodities, and/or passengers.

Taxes are established by the Congress for various purposes such as generating revenue for trust funds.

Miscellaneous assessments are diverse and include, for example, MARAD's annual guarantee fee which covers defaults and operating costs for one of its programs.

Figure 3.2: Type of Service or Activity Associated with Assessments, Including Customs Duties, for Fiscal Year 1991

Admin. Processing & Associated Services (74 assessments)
Physical Services (30 assessments)
Taxes (6 assessments)
Miscellaneous Services & Customs Duties (7 assessments)

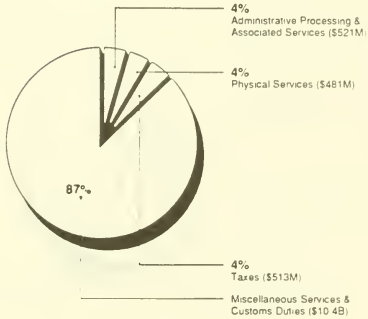


Figure 3.2 is a chart of the percentage of dollars collected in fiscal year 1991

Figure 4: Payor of Assessments in Fiscal Year 1991

Either owner or operator	54
Owner only	22
Owner, operator, or other party	17
Operator only	13
Others—e.g. importer or exporter	11

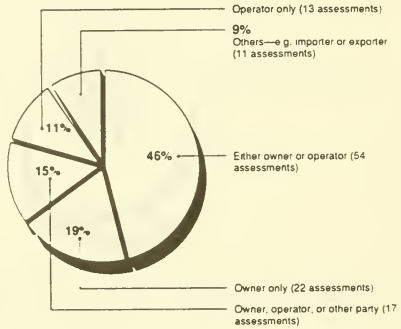


Fig. 4: Payor of Assessments paid by various parties in fiscal year 1991

Figure 5.1: Intended Purpose(s) of the Assessments, Excluding Customs Duties, in Fiscal Year 1991

Reimburse Agency (60 assessments)
General Fund of Treasury (51 assessments)
Trust Fund (6 assessments)

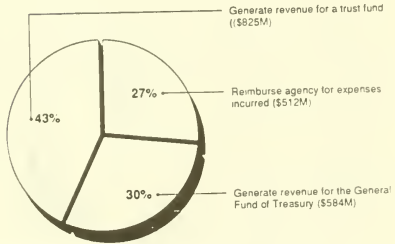


Fig. 5.1 is based on the percentage of dollars collected in fiscal year 1991

Figure 5.2: Intended Purpose(s) of the Assessments, Including Customs Duties, in Fiscal Year 1991

Reimburse Agency (60 assessments)
General Fund of Treasury (51 assessments)
Trust Fund (6 assessments)

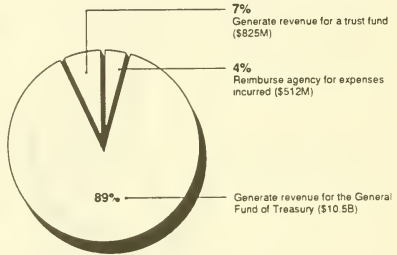


Fig. 5.2 is based on the percentage of dollars collected in fiscal year 1991

AMOUNTS COLLECTED FROM FEDERAL ASSESSMENTS [Source: General Accounting Office (GAO/RCED-93-65FS)]

Table 4.2: Amounts Collected by Agency (Fiscal Years 1989, 1990, and 1991 and Projections for Fiscal Year 1992)

Dollars in thousands

Agency	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991	Projected fiscal year 1992
AGENCIES WITH ASSESSMENTS SPECIFIC TO THE MARITIME INDUSTRY				
APHIS	\$ *	\$ *	\$ 5,368	\$ 25,382
Coast Guard	2,022	2,138	1,884	1,952
Customs Service	225,350	221,618	478,701	643,477
FCC	"	1,424	5,906	5,919
FGIS	828	745	672	716
FMC	55	37	51	70
IRS	51,600	63,666	75,793	94,900
ICC	0	0	0	0
MARAD	21,182	19,219	15,687	15,339
NOAA/NMFS	7,586	6,380	4,423	3,474
PCC	398,845	438,794	466,228	455,509
SLSDC	0 ^a	0 ^a	0 ^a	0 ^a
SUBTOTAL--ASSESSMENTS SPECIFIC TO THE MARITIME INDUSTRY	\$ 707,468	\$ 754,026	\$ 1,054,713	\$ 1,246,738

Agency	Fiscal year 1989	Fiscal year 1990	Fiscal year 1991	Projected fiscal year 1992
AGENCIES WITH ASSESSMENTS NONSPECIFIC TO THE MARITIME INDUSTRY				
APHIS	*	*	*	2,791
Customs Service (without duties)	730,211	731,218	484,924	495,432
Customs Service (duties only)	*	11,196,451	4,951,577	7,826,978
ICC	1	-	8	7
IRS	325,101	344,357	381,203	385,380
SUBTOTAL--ASSESSMENTS NONSPECIFIC TO THE MARITIME INDUSTRY	\$ 1,055,337	\$ 11,527,022	\$ 10,817,712	\$ 8,710,590
TOTAL--SPECIFIC AND NONSPECIFIC ASSESSMENTS				
	*	\$12,281,048	\$11,872,425	\$9,997,328
TOTAL--LESS CUSTOMS DUTIES				
	\$1,762,805	\$1,884,598	\$ 1,920,846	\$ 2,130,350

FEDERAL ASSESSMENTS LEVIED ON THE MARITIME INDUSTRY

[Source: General Accounting Office (GAO/RCED-93-65FS)]

Department of Agriculture

The Animal and Plant Health Inspection Service (APHIS) assesses an Agriculture Quarantine and Inspection User Fee for Commercial Vessels.

The Federal Grain Inspection Service (FGIS) assesses a Stowage Examination Fee for maritime vessels.

Department of Commerce

National Oceanic and Atmospheric Administration/National Marine Fisheries Service assessments listed in the General Accounting Office report are levied on fishing vessels and fishing vessel operators and totaled \$4.4 million in Fiscal Year 1991.

Department of Transportation

The U.S. Coast Guard assesses the following fees on the maritime industry:

- (1) Abstract of Title Issuance Fee;
- (2) Certificate of Financial Responsibility (COFR) under the amendments to the Outer Continental Shelf Lands Act Application and Issuance Fee;
- (3) Certificate of Financial Responsibility (COFR) under the Federal Water Pollution Control Act Application and Issuance Fee;
- (4) Certificate of Financial Responsibility (COFR) under the Trans-Alaska Pipeline Authorization Act Application and Issuance Fee;
- (5) Certificate of Ownership Issuance Fee;
- (6) Change of Documented Vessel Name Application Fee;
- (7) Instruments of Conveyance and Encumbrance Recording Fee;
- (8) New Vessel Determination Application Fee;
- (9) Reimbursement of Travel and Subsistence Costs for Overseas Vessel Inspections; and
- (10) Wrecked Vessel Qualification Application Fee.

The Saint Lawrence Seaway Development Corporation (SLSDC) assesses the St. Lawrence Seaway Tariff of Tolls.

The Maritime Administration (MARAD) assesses the

following fees on the maritime industry:

- (1) Annual Guarantee Fee for MARAD's Title XI Program;
- (2) Approval of Trustee Application Fee;
- (3) Authority to Transfer Ownership of Ships Built with Construction Subsidies Application Fee;
- (4) Commitment to Execute Guarantee Application Fee;
- (5) Foreign Transfer of Ownership or Registry Application Fee;
- (6) Foreign Transfer Pursuant to MARAD Contracts Application Fee;
- (7) Investigation Fee;
- (8) Sale of Subsidized Vessels Application Fee;
- (9) Substitution of Participants for Title XI Assistance Application Fee; and
- (10) Trustee's Supplemental Certification Fee.

Department of Treasury

The U.S. Customs Service assesses the following fees on the maritime industry:

- (1) Air/Sea Passenger Fee;
- (2) Barge/Bulk Carrier Fee;
- (3) Certification Fee for Payment of Vessel Tonnage Tax by Foreign Vessels;
- (4) Clearance of Vessel Processing Fee;
- (5) Commercial Vessel Fee;
- (7) Entry of Vessel Processing Fee;
- (8) Harbor Maintenance Fee;
- (9) Permit to Allow Foreign Vessels to Proceed from District to District and Receipt of Manifest Issuance Fee;
- (10) Receipt of manifests of Foreign Vessels on Arrival from Another District and for Granting Permits to Unload Processing Fee;
- (11) Receipt of Port-Entry Processing Fee;
- (12) Foreign Repairs to U.S. Vessels Tariff; and
- (13) Vessel Tonnage Tax.

The Internal Revenue Service assesses the following fees on the maritime industry:

- (1) Inland Waterways Fuel Tax;
- (2) Ship Passengers International Departure Tax; and
- (3) Oil Spill Liability Tax.

Federal Communications Commission (FCC)

The Federal Communications Commission assesses the following fees on the maritime industry:

- (1) Great Lakes Radio Agreement Inspection Fee;
- (2) Oceangoing Vessel Radio Inspection Fee;
- (3) Radio Communications Equipment Carriage Exemption Processing Fee;
- (4) Safety Convention Radio Inspection Fee;
- (5) Ship Radio Station License Application Fee;
- (6) Small Passenger Vessel Radio Inspection Fee; and
- (7) Temporary Waiver of Radio Inspection Application Fee.

Federal Maritime Commission (FMC)

The Federal Maritime Commission (FMC) assesses the following fees on the maritime industry:

- (1) Automated Tariff Filing and Information System (ATFI) Certification of Batch Filing Capability Fee;
- (2) ATFI User Manual Fee;
- (3) ATFI User Registration Fee;
- (4) Certificate of Financial Responsibility (COFR) for Indemnification of Passengers for Nonperformance of Transportation Application Fee;
- (5) COFR to Meet Liability Incurred for Death or Injury to Passengers or other Persons on Voyages Application Fee;
- (6) Complaint Filing Fee;
- (7) Conciliation Service Application Fee;
- (8) Declaratory Offer Application Fee;
- (9) General Petition Application Fee;
- (10) Informal Small Claim Procedures Application Fee;
- (11) Shortened Procedure Application Fee;
- (12) Special Docket Application Fee; and
- (13) Special Permission Application Fee.

Interstate Commerce Commission (ICC)

Of the assessments listed by the General Accounting Office, only the Notice or Petition to Discontinue Ferry Service Filing Fee was specific to the maritime industry.

Panama Canal Commission (PCC)

The Panama Canal Commission assesses the following fees on the maritime industry:

- (1) Docking/Undocking Tug and Service Fee;
- (2) Extraordinary Transit Tug Service Fee;
- (3) General Tug Service Fee;
- (4) Handling Lines for Docking after Transit Service Fee;
- (5) Handling Tug Lines Service Fee;

- (6) Handling Vessel Lines Service Fee;
- (7) Launch Service Fee (Dredging Division);
- (8) Launch Service Fee (Marine Bureau);
- (9) Offshore Pilotage Fee;
- (10) Pilotage Fee at the Gamboa Mooring;
- (11) Pilotage Fee During Dock Trial;
- (12) Port Pilotage Fee;
- (13) Sea Tug Service Fee;
- (14) Special Admeasurement Service Fee;
- (15) Standard Tug Service Fee;
- (16) Tolls for Transit;
- (17) Transit Booking Fee;

ASSESSMENTS CURRENTLY UNDERGOING RULEMAKINGS [Source: General Accounting Office (GAO/RCED-93-65FS)]

The U.S. Coast Guard and Federal Maritime Commission currently have 28 assessments undergoing rulemakings. These assessments are in addition to the 117 identified by GAO and fall under the following categories:

Coast Guard:

- (1) Certificate of Financial Responsibility (COFR) for Water Pollution application and issuance fee;
- (2) Merchant Marine licensing, certificates of registry, and merchant mariner documentation fees;
- (3) Documentation of vessel fees, fees for recording instruments, and application fees;
- (4) Merchant Mariner document renewal fee;
- (5) Commercial vessel inspection or examination fee;
- (6) Equipment Approval fee; and
- (7) New Construction and Plan Review fee.

Federal Maritime Commission:

- (1) Automated Tariff Filing Information (ATFI) data base tapes fee; and
- (2) Automated Tariff Filing Information (ATFI) remote retrieval fee.

STATEMENT OF THE
AMERICAN ASSOCIATION OF PORT AUTHORITIES

BY

ANNE AYLWARD

MARITIME DIRECTOR, MASSACHUSETTS PORT AUTHORITY

BEFORE THE
COAST GUARD AND NAVIGATION SUBCOMMITTEE
AND THE MERCHANT MARINE SUBCOMMITTEE
OF THE
HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 25, 1993

ON
THE EFFECT OF TRADE TAXES ON U.S. PUBLIC PORTS

Good morning. My name is Anne D. Aylward. I am the Maritime Director for the Massachusetts Port Authority. I am here today on behalf of the American Association of Port Authorities (AAPA). Founded in 1912, AAPA represents virtually every U.S. public port agency, as well as the major port agencies in Canada, Central and South America and the Caribbean. My testimony today reflects only the views of the United States delegation of AAPA.

Our Association members are public entities mandated by law to serve public purposes--primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth. As public agencies, AAPA members share the public's interest in serving our country's economic, international trade, and national security objectives. Public ports serve as a vital conduit linking the United States to the world marketplace, a critical intersection in the intermodal chain. Ports serve broad hinterlands, connecting farmers, manufacturers and suppliers often thousands of miles inland to international markets sometimes tens of thousands of miles from our shores.

In 1990, AAPA helped found the Trade Taxes Group, a coalition of shippers, carriers, commodity groups and other entities interested in waterborne commerce. The Trade Taxes Group was an outgrowth of the fiscal 1991 budget agreement which severely increased and levied new taxes on trade. Today, several representatives of the Trade Taxes Group will "tell their story" about how these taxes have affected their particular industry.

Two years ago, we came before this Committee to talk to you about the danger of increasing taxes on trade. At that time, no one knew the number of taxes, fees or assessments levied on maritime commerce or the amount of fees collected. We were very pleased that you asked General Accounting Office (GAO) to prepare a baseline study of federal taxes on maritime trade. We are very pleased with the thorough job that the GAO did in preparing this study. We have had an opportunity to examine the study results and believe that it represents an excellent first step toward understanding the impact of these regressive taxes on trade.

Public port authorities are keenly aware of the fiscal crunch that the federal, state and local governments are experiencing. As the costs of providing government services continues to rise, so does the need to generate additional revenue. While we appreciate the government's need to find new revenue sources, regressive taxes on trade are not the answer. We believe that instead levels of exports will facilitate resolution of our fiscal crisis. Greater tax burdens on exports will slow, not hasten our economic recovery.

As you are all well aware, international trade creates tremendous positive economic impacts at the local, regional and national level. According to recent figures from the Maritime Administration, in 1991, commercial port activities resulting from cargo operations created 1.5 million jobs, contributed \$70 billion to the gross national product, provided personal income of \$52 billion, and generated federal taxes of \$14 billion, state and local taxes of \$5.3 billion. The deep draft commercial ports of our country handle over 95 percent of the nation's international trade -- nearly one billion tons of cargo a year worth nearly 500 billion dollars. The importance of ports to local, state and regional economies cannot be overstated. Exports today are increasingly necessary to the health of America's economy, representing one out of six new U.S. manufacturing jobs. Exports accounted for 90 percent of U.S. GNP growth last year. According to the U.S. Department of Transportation, U.S. ports spent more than \$11.8 billion from 1946-1991 on port and related shore-side infrastructure and are expected to spend more than \$5.5 billion over next five years.

The GAO study identified twelve federal agencies levying a total of 117 diverse assessments for total collections of 11.9 billion dollars in fiscal year 1991. Eighty-nine percent of these collections go directly to the General Fund of the U.S. Treasury. Only eleven percent reimburse the agency providing the service or generate a port related trust fund. So much for "user" fees!

We have been asked to testify as to the effect of the trade taxes have had on public ports in the last few years. Let me start by saying that all U.S. coastal ranges have been

adversely impacted by additional trade taxes; however, the Harbor Maintenance Tax is a particular concern for U.S. seaports bordering Canada. The diversion of cargo to Canadian ports is a very real problem faced by the northern tier U.S. ports, from the Pacific Northwest, across the Great Lakes to the North Atlantic. Cargo moving on an average container ship calling at a U.S. port generates about \$75,000 in harbor maintenance taxes. Shippers can avoid these costs entirely by moving their freight through Canadian ports where no such federal tax is collected.

I can attest that the Harbor Maintenance Tax increase has had a negative impact on the North Atlantic. While .125 percent sounds like a small amount, its impact on New England's high value cargo has been dramatic. Multinational high technology companies have documented an increase of \$200 to \$400 per container. By comparison, total container handling charges at the Port of Boston average less than \$300. The Port of Boston handles eight billion dollars worth of cargo annually. The tripled harbor maintenance tax assesses ten million dollars annually against this cargo. However, the port's natural deep water does not require frequent maintenance dredging. In the past five years, the Corps records no expenditure of funds for maintenance dredging in Boston Harbor. In light of this, it is not surprising that New England shippers have been at the forefront of the fight to rollback the Harbor Maintenance Tax.

The impact of the tax increases on the U.S. Ports of the Great Lakes with their direct geographic proximity to the Canadian Great Lakes Ports has also been significant. Perhaps the most dramatic is the story of the Incan Superior. The Incan, a roll-on roll-off railcar ferry, made 160 trips a year between Thunder Bay, Ontario and Duluth, Minnesota/Superior, Wisconsin. She carried forest and agricultural products between the two ports. The transportation alternative was a circuitous loop on Highway 61 around Lake Superior's north shore. During the summer season this highly traveled road already has a serious conflict between auto and truck traffic. There is little doubt as to the economic and environmental benefits of the Incan Superior's service. However, with the tripling of the Harbor Maintenance Tax, the Incan's owners were faced with a tax which increased overnight from \$68,000 per year to \$220,000 per year. It is interesting to note that while this tax might, in theory, help to maintain Duluth's channel depth of 27 feet, the Incan Superior draws only 17 feet. As you might guess, this story does not have a happy ending. With the huge tax increase, the Incan service could not compete with overland transportation and was terminated. The vessel is now operating on the Canadian west coast and freight between Duluth and Thunder Bay has now been added to the congestion on Highway 61.

In Washington State, the major Puget Sound load-center ports of Tacoma and Seattle are concerned that these huge trade taxes will result in the diversion of cargo from their ports to Vancouver, British Columbia, just 150 miles to the north. They estimate that when an average container ship loads or unloads cargo at their ports, U.S. exporters, importers or shippers owe about \$75,000 in harbor maintenance taxes and the carriers owe about \$5,000 in vessel tonnage taxes yielding a total of over \$80,000 per ship call. The same vessel calling at Vancouver would face no national taxes or fees, except for a nominal per container drug interdiction fee paid by the consignee for those containers inspected for drugs.

In each case, since cargo moving across the border by truck to use Canadian ports is not subject to the tax, the result is enormous pressure to divert cargo away from the public ports of the United States.

For ports dependant on bulk commodities in close-margin international markets, such as grain and coal, just a few cents a ton can determine the commodity's competitive position in the marketplace. For example, The Andersons is a major U.S. grain company headquartered in Toledo. The company has advised the Port of Toledo that "a price differential as slight as one cent per bushel can swing business away from Great Lakes ports" and divert cargo via rail to Canada for international export markets. Together, these effects mean a decline in U.S. competitiveness, income, and jobs.

In summary, taxes on trade are regressive -- taxes cannot be collected on commodities that are not being shipped internationally because they have been priced out of foreign markets or are escaping U.S. taxes by moving across the border to Canadian ports. Not only do our northern tier ports lose cargo to Canada, but, from a national perspective, the projected tax revenue is lost to the U.S. Treasury; cargo which could move efficiently by water is instead imposing a further load on our already overburdened highways and bridges. Worst of all, these taxes are a disincentive to export. Trade taxes, unlike Customs duties, cannot be considered as a "cost of doing business." These taxes undercut our competitiveness in the international marketplace at a time when we should instead be expanding our trade horizons.

As Congress grapples with the difficult problem of reducing the deficit while encouraging economic recovery, we urge you to hold the line on taxes on trade. No new or increased taxes, fees, or other levies on international trade should be adopted without first assessing the cumulative impact on trade and our international competitiveness. The GAO study should be an important tool in assessing these impacts. The GAO study is but a first step in understanding trade taxes. We encourage you to continue to monitor and assess the effects of trade taxes. We hope the Committee pursues a second phase of the GAO study to estimate and better quantify the cumulative impact of these taxes on trade. To that end, we offer our assistance and support.

We appreciate the work of this Committee and the GAO staff who prepared this report. We look forward to working with you to enhance the competitive position of the United States in international markets.

Testimony of the American Institute of Merchant Shipping and the American Petroleum Institute before the joint hearing of the Subcommittees on Coast Guard and Navigation and Merchant Marine of the House Committee on Merchant Marine and Fisheries on the impact of federally mandated user fees/taxes levied on the maritime industry.

March 25, 1993

Thank you, Mr. Chairman. I am John Joeckel, Manager, Fleet Operations, Ashland Petroleum Company. I am here today representing the American Institute of Merchant Shipping and the American Petroleum Institute. We have joined together for the purpose of today's hearing because of the extraordinary importance and substantial impact current and future user fees and taxes have and will continue to have, on the viability of the maritime community and its continued ability to provide American businesses and, ultimately, the general public with low cost, efficient, and reliable transportation services.

The GAO found that in Fiscal Year 1991, a total of \$11.9 billion in federal revenue and agency reimbursements were collected from the maritime industry. The GAO identified 12 federal agencies that levy 117 individual assessments. Another 28 assessments (such as the Coast Guard vessel inspection fees and Federal Maritime Commission fees on Automated Tariff Filing Information) were pending implementation and, therefore, were not included in the total. Although we strongly support the intent of the GAO report in compiling the cost impact on our industry from current federal taxes, it is important that you are fully aware that this industry will face severe cost impacts from newly proposed federal user fees and taxes, such as the BTU tax and the astronomical increase in the inland waterways fuel tax. Both of these taxes are assumed in the budget resolution recently passed by the House. It is also vitally important that you be cognizant of the fact that the domestic marine industry is under an enormous cost burden in attempting to comply with various federal regulatory initiatives, such as the Oil Pollution Act of 1990 and the Clean Air Act Amendments of 1990. Costs from new or increased taxes, combined with regulatory compliance requirements will severely erode the ability of the domestic maritime industry to provide jobs and sufficient capital investment to ensure long-term viability of this lowest cost, environmentally sound mode of transportation.

At my company, we are faced with almost \$100 million in expenditures to phase out our single hull barges and replace them with double hulls as required by OPA 90. At the same time, we will be seeing our annual federal fuel tax bill increase from \$900,000 in 1992 to \$8.1 million in 1997 when the BTU and waterways taxes are fully phased in. That is \$8.1 million that would otherwise be reinvested in new equipment and jobs.

If an increase in the fuel tax is enacted, the impact on waterway-related industries would be devastating. The low cost of waterway transportation is valuable to America's industries and agriculture which rely on the waterways to move substantial quantities of raw materials, such as coal, farm crops, and oil products cost efficiently from origin to destination. With the addition of a new \$1.00/gallon fuel tax and an almost \$.09/gallon BTU tax, water transportation costs would escalate dramatically with exports, investments, and employment being adversely impacted by the substantial direct costs not only from the taxes themselves, but also from the enormous secondary and indirect costs rippling throughout the entire economy. The costs of goods and services will increase and may reignite the flames of inflationary pressures. These taxes will weaken the competitive position of U.S. businesses in world markets, particularly for coal and grain, by increasing the price of exported goods, by potentially reducing domestic jobs that depend upon the export markets and by increasing our trade deficit.

The combination of user fees, taxes, and other charges greatly concerns the owners and operators of both deep draft and shallow draft vessels. The BTU tax will increase the base cost of bulk and manufactured goods slated for the export market. Add to this base cost, the waterways transportation costs of moving that cargo to an export port, we will see that commodity priced out of the overseas marketplace. Therefore, not only do vessel owners and operators have concern with the increased direct cost to their operations from increased fuel costs, but the indirect and secondary impacts could substantially reduce their domestic customer base as a result of a reduction in export tonnage.

For example, if bulk coal or grain is priced out of the world marketplace, there will be a

reduction in the number of inland river barges required to move those commodities from the U.S. Heartland to Baton Rouge and New Orleans for trans-shipment to deep draft vessels. With the reduction of export tonnage, there will be a corresponding reduction in the need for deep draft vessels in Baton Rouge and New Orleans to load these commodities destined for the world marketplace. This scenario translates directly into laid up barges and ships, lost employment and lost revenues to vessel operators, port authorities, and the shipyards and stevedoring operations that service these vessels. Also, in international trade, U.S. flag operators are already at a distinct cost disadvantage against their foreign competition in a number of areas. These disadvantages must be overcome by providing a higher standard of service to customers. Imposition of direct user fees for inspections or examinations and other fees, which are substantial, further degrades the competitive position of U.S. flag companies.

Moreover, the inland waterways fuel tax conflicts with environmental objectives by shifting from the most environmentally friendly and fuel efficient transport mode to less efficient transporters. A typical Ohio River oil products tow, for example, will carry 150,000 barrels to 175,000 barrels of cargo. It would take 750 tanker trucks or 315 rail cars to transport that same volume. Whereas barge movements consume 270 btu/ton mile, rail consumes 687 btu/ton mile and trucks consumer 2,343 btu/ton mile.

Yes, The BTU tax and the Inland Waterways tax concerns the maritime community greatly in relation to direct costs, as well as from the indirect and secondary cost perspective. However, increases in harbor maintenance fees, vessel tonnage taxes, direct and indirect Coast Guard user fees and customs user fees, are of additional concern as either actual or proposed fees.

Implementation and/or the increase of direct user fees or taxes will further degrade the competitive position and long-term viability of the inland river transporters and the U.S. Flag oceangoing vessel companies. As I testified last week, I represent an industry which is being smothered by regulations arising from OPA 90 and other environmental statutes. Compounding this situation with increased user fees and other taxes may result in driving good, environmentally responsible companies out of business. We urge the members of these two subcommittees to acknowledge and understand the dire implications of the cumulative cost impact of a broad-range of regulatory requirements, user fees, and taxes currently imposed or scheduled to be imposed on the maritime sectors.

Thank you, Mr. Chairman.

Hearings on the Effects on the Maritime Industry of User Fees

Testimony of Joseph A. Farrell
President
American Waterways Operators

Before the Coast Guard and Navigation Subcommittee
and the Merchant Marine Subcommittee
House Merchant Marine and Fisheries Committee
U.S. House of Representatives

March 25, 1993

Chairman Tauzin, Chairman Lipinski, Members of the Subcommittees, my name is Joe Farrell, and I am President of the American Waterways Operators (AWO), the national trade association representing the inland coastal barge and towing industry and the shipyards which build and service these vessels. I am also appearing here today on behalf of the National Waterways Conference, a nationwide organization of some 400 waterway-related businesses, industries and agencies.

I am pleased to be here today to continue our dialogue with key committees of the House concerning the effects of federally-mandated user fees on the barge and towing industry. For years, we have argued that Congress is not giving adequate consideration to the cumulative financial and competitive impacts of the ever-growing list of fees under which this industry is being buried. Now, thanks to you and other Members of the Merchant Marine and Fisheries Committee, we have a factual General Accounting Office (GAO) study detailing the \$11.9 billion in federal fees and assessments already levied on the maritime industry. Considering that the Administration's proposed economic plan also includes an increase in the inland waterways fuel tax fee of 525 percent, this GAO study and your hearing today are incredibly most timely. No one could have planned the convergency of the facts surrounding these hidden taxes and the shocking proposal by the Administration to increase the inland waterways fuel tax by 525 percent.

The whole rubric of the federal government imposing these so-called user fees, or taxes, runs against the very foundation upon which this nation was built. It is nothing less than taxation without representation. Such an outrage prompted our rebellion against a distant and uncaring king.

This concept of a towering federal government imposing taxes on a relatively tiny sector of U.S. society finds its roots in the American people's growing concern about an ever larger presence of government in our lives. The people became reluctant to pay more income taxes. Politicians became increasingly apprehensive about proposing any taxes which would be visible to the voters. That was enshrouded in the now famous (and fractured many times) decree, "no new taxes."

But, encroaching government has to be fed. User taxes are at least a partial and politically safe way out. The concept modifies Sen. Russell Long's aphorism into "Don't tax you, don't tax me, tax the man you cannot see." No matter how you slice it, these invisible and proliferating taxes are wrong.

As documented in the GAO study *Federal Assessments Levied on Commercial Vessels*, some 12 federal agencies levy 117 individual assessments on the maritime industry, totalling \$11.9 billion, including \$1.9 billion in user fees and taxes, and \$9.9 billion in Customs duties on goods transported by vessel. For FY 1992, revenue projections will raise the industry user fee total to \$2.1 billion. Worse, still, GAO estimates that there are 28 **pending** assessments (vessel documentation, marine licensing and renewal, vessel inspection, new construction and plan review fees) already in the works which will add another \$23.5 million in FY 1993, increasing to an estimated \$40.3 million in FY 1997. Clearly, this study, which does **not** include state and local assessments, establishes that we are already a heavily taxed industry; unfortunately, even greater tax burdens lie ahead.

Chairman Tauzin, last year (February 25, 1992), AWO testified before your Subcommittee concerning the Coast Guard's proposed regulations assessing Direct User Fees for Inspection or Examination of U.S. and Foreign Commercial Vessels (CGD 91-030) and User Fees for Marine Licensing Certification of Registry and Merchant Mariners Documentation (CGD-91-002). At that time, we provided an evaluation of these specific fees, comparing the projected costs charged with the criteria established under law (fees should not exceed the total cost of providing the service), and concluded that these proposed assessments were in some cases excessive or duplicative and therefore failed to meet the law's requirements. Concerning marine licensing fees, we also stated that the Coast Guard had seriously underestimated the financial burden which the proposed fees will represent to the average mariner, as well as to prospective employees who would face front-end financial barriers to employment for entry-level positions. Finally, we stated then, and reiterate now, that the Coast Guard and the other

federal agencies should refrain from issuing final regulations until public comments on each regulatory proposal have been received and evaluated in toto.

Considering that the GAO study documents that 89 percent (\$10.5 billion) of the fees collected from the industry go to the General Treasury, i.e., these fees fund no specific service to those paying the money, it is clear that the level of assessments goes well beyond the law's requirement that fees collected be related to the cost of providing a service.

Beyond this GAO study and the general issue of the cumulative impact of fees on this industry, I believe it is important to single out today a fee which is **not** covered in this study but which, if enacted, would clearly threaten the viability of the barge and towing industry.

I am, of course, referring to the proposed 525 percent increase in the inland waterways fuel tax -- the so-called "Barge Tax," which is estimated to hit the industry for \$820 million over the budget period.

Like many Americans, we were encouraged by candidate and now President Clinton's call for change, emphasizing job security, economic growth, and fiscal responsibility. We were also particularly pleased by his recognition that infrastructure plays a critical role in establishing the foundation for a sustained economic expansion from which all citizens benefit. Buried in the details of the Administration's economic program and scored as a spending cut, however, is a shocking 525 percent increase in the diesel fuel tax levied on commercial navigation interests using the inland waterways system. Because this fuel tax increase will in fact encourage only disinvestment in waterways infrastructure, we submit that it is grossly inconsistent with the stated aims of the Administration's economic plan and should therefore be abandoned. Fortunately, the President, when questioned about the issue in a March 1 CBS news interview, stated that the inland waterways tax issue "needs to be reexamined." Unfortunately, the proposal is still buried in the Budget Resolution which will be voted on this week in both the House and Senate.

In his transmittal letter to Congress, the President described his "vision of change" as including investment in people, reward for hard work, fairness, and recognizing that our families and communities are the cornerstone of America's strength. That vision was long ago seen and followed by the founders of this industry -- some of whose families still ply the waters of our great inland waterways network. Most of the companies in our industry are what is characterized as "small business."

To these men and women who manage and operate America's barge and towing industry, the inclusion of an increase on the inland waterways transportation sector forces us to conclude that the Administration makes this proposal without having had the opportunity to gauge the consequences. This proposed tax, if enacted, would capture approximately 25 percent of the industry's annual revenues. No industry in America could survive such a blow.

In order to measure and appreciate the impact this tax increase would engender, it is first necessary to understand the role waterborne transportation plays in the nation's economic infrastructure. For less than 2 percent of the nation's transportation costs, we transport 15 percent of the nation's freight, over half of all export grain, 20 percent of all coal, over 30 percent of the nation's petroleum products, and 20 percent of the logs and woodchips destined for overseas markets -- and do so in the most economic, fuel efficient, and environmentally sound method offered by any of the competing bulk commodity transporters. This industry is America's most productive mode of transportation. Our vessels deliver agricultural fertilizer to farmers; grain to food producers and export ports; building materials to construction sites; iron and steel to factories; coal to electric generating plants; and home heating oil and gasoline to millions of Americans. The cargoes go to all sectors of the American economy, and thus play a significant role in enhancing U.S. competitiveness, both domestically and in the expanding international marketplace.

Before elaborating the harmful effects of the proposed tax, however, we must take exception to invalidate the Office of Management and Budget's (OMB) relentlessly repeated myth that the barge and towing industry is the most subsidized transportation

mode, is the sole beneficiary of federal expenditures on the rivers, and is therefore an appropriate target for such a tax gouge. A broken statement which OMB plays like a broken record. OMB apparently forgets that all river construction projects must meet federal requirements that the benefits of each project surpass by a large margin the construction costs, before work can begin. This rigorous test is required by federal law. And, the barge industry is the only transportation mode which must pass such a test. OMB apparently forgets that all these federal expenditures on transportation ... land grants to the railroads, subsidies to build and maintain the interstate highway network, inland river locks and dams ... are investments to foster economic development. Not one has failed to provide a cornucopia of benefits to American citizens.

Specific to the river valleys, the expansion of communities and businesses could not have occurred without federal spending to maintain the waterways. Consider also that maintenance of the channels and operation of the network of dams on the rivers are essential to flood control. Scores of communities along the Ohio River get their water supply from the river. Recreational and environmental interests ... boaters, fishermen, campers, hunters, the preservation of sanctuaries and habitats for a great variety of fish, mammals, and birds ... benefit enormously from the work of the U.S. Army Corps of Engineers.

Although clearly **not** the sole beneficiary of the system, the barge and towing industry is the lone waterways user-investor -- diesel fuel taxes paid **only** by the barge and towing industry into the Inland Waterways Trust Fund already finance 50 percent of the construction and rehabilitation expenditures each year. Currently, this dedicated tax is 17 cents/gallon, with mandated additional increases set at 19 and 20 cents, respectively, in 1994 and 1995. Given these facts, it is fiction that the barge industry is the beneficiary of disproportionate federal largesse.

Under the President's proposal, which would take effect in FY 1994, that 19 cents would be raised by \$1.00 per gallon to \$1.19 over four years, be earmarked not for construction but for overhead costs, and is estimated to cost the industry \$820 million during the period. The immediate implication of such a tax is not speculation. The cost of a typical 14-day trip carrying grain, corn, or soybeans from Minneapolis to New Orleans would increase by \$70,000. One needs to understand, in order to grasp the true consequences of this proposed tax, that this industry's vessels make 125,000 trips in a given year.

These fuel cost increases assume perhaps that barge operators will be able to pass along these costs and will not be forced out of business; for many small and medium sized operators, which constitute the core of this industry, this unfortunately is not a realistic assumption. Moreover, to the extent that price competition, barge to barge, or barge to rail, is diminished by this proposal, rates for commodity shippers will no doubt increase further and other negative non-pricing factors will also go up as well. For example, Minnesota's Department of Transportation found that if waterways traffic in the state were shifted to rail, fuel use would increase by 331 percent, emissions by 470 percent, and probable accidents by 290 percent. If the traffic diversion went to trucks, these same negative impacts would increase 826 percent, 705 percent, and 5,967 percent, respectively. Moreover, for every 16 barge tow -- an average sized tow on the Mississippi -- it would require 1000 semi-truck loads to haul the equivalent cargo.

Considering all this, and the fact that the revenues generated by this industry are far less than the contribution level the Administration is asking us to make, one can no doubt appreciate our opposition to the proposal.

We believe it is most important that you also consider the macro-economic impact this proposal would have on the many commodity sectors which rely on us as both a transporter of their products and also as an insurer of the benefits of competitive pricing for bulk commodity transport.

To repeat, the barge and towing industry moves over half of all grain shipments bound for export. Under the Administration's plan, the fuel cost per ton for grain shipments from St. Paul, Minnesota; Quincy and Pekin, Illinois; and Dubuque, Iowa; to the Gulf would increase by 130 percent, 126 percent, and 125 percent, respectively. Coal operators would likewise be hit (over and above the BTU energy tax proposal). Specifically, the

fuel cost per ton for barge coal movements from the Big Sandy, Kentucky/West Virginia; to Pittsburgh, Pennsylvania; Cincinnati, Ohio; and the Gulf, would increase *137 percent*, *136 percent*, and *132 percent*, respectively. Shipment fuel costs from the Kanawha River, West Virginia, to the Gulf would likewise increase *131 percent*.

President Clinton's vision of America is built on investment in our nation's infrastructure, technologies, and people, to spur the domestic economy so that this nation will be positioned to compete in global markets. Throughout history, federal government investment in transportation infrastructure unfailingly produced bountiful results for our citizens. Our ability to compete globally goes to the heart of creating and retaining high-paid jobs in the future. Given the magnitude of the projected cost increases cited above, it is clear that exports of grain and coal would be severely impacted, which obviously runs counter to the President's stated goals.

During the campaign, President Clinton also appropriately noted investment in transportation systems that other nations have made have better positioned them for international competition. For example, Japan invests 23 times as much as the United States in infrastructure; and in Germany, 15 times as much. Part of the Administration's strategy is to follow this example. The impacts of the proposed fuel tax increase are clearly inconsistent with their stated objective.

In *A Vision of Change for America*, President Clinton rightly underscored the need to provide funds to maintain and enhance America's infrastructure to spur economic growth and prosperity. The barge and towing industry, which provides more on board jobs than any other in the maritime sector, is the marine component of this infrastructure. One would thus expect that rather than mandating an ever-increasing list of fees, quintupling the inland fuel tax, and leveling a BTU tax, the federal government should instead be boosting this transportation mode by advocating programs which lower the costs for the industry.

STATEMENT OF TOM CARROLL, CO-DIRECTOR,
NEW ENGLAND SHIPPERS ADVISORY COUNCIL

BEFORE THE

SUBCOMMITTEES ON COAST GUARD AND NAVIGATION,
AND MERCHANT MARINE
COMMITTEE ON MERCHANT MARINE AND FISHERIES

March 25, 1993

Mr. Chairman and Members of the Subcommittee, my name is Rod Schonland. I am the Manager of Trade Regulations for the Polaroid Corporation, headquartered in Cambridge, Massachusetts, and with facilities at numerous sites throughout New England. I am appearing today on behalf of Mr. Tom Carroll of Polaroid, the Co-Director of the New England Shippers Advisory Council; and it is in that capacity that I am here today to discuss the impact on our members of federal assessments on trade movements, and particularly, the Harbor Maintenance Tax.

The New England Shippers Advisory Council is a group of more than 140 New England companies that ship through the Port of Boston and other New England and Northeastern ports. Many of our members are major U.S. exporters and processors of goods which are entered at these ports. My testimony today also reflects the views of another organization, the Agricultural Ocean Transportation Coalition, whose membership across the United States includes growers, processors, suppliers, and vendors to the farm, forest, and fiber agriculture industry.

The Committee has done a service to the shipping community in requesting the GAO Report on Federal Assessments Levied on Commercial Vessels. This Report demonstrates the sheer magnitude of the burden on trade and competitiveness posed by 119 different assessments by 12 different agencies on the movement of goods through the ports of the United States. As Congress considers the Administration's tax and budget proposals to address the deficit, it is imperative that these assessments also be re-evaluated. True deficit reduction depends upon long-term productivity and international competitiveness. The unintended consequence of expanding so-called "user fee" taxation on trade movements is the distortion of trade and the potential re-location of the country's productive assets. This basic fact has been recognized by Republican and Democratic Administrations alike with respect to tariffs under the Uruguay Round and NAFTA negotiations. The current -- and possibly increasing -- levels of non-tariff assessments on commercial vessel trade contradict that premise.

Although our groups are deeply concerned about the cumulative effects of these taxes, I would like to focus my testimony on one of the user fees identified in the GAO Study: the Harbor Maintenance Tax. This tax was tripled in 1990, to its current level of 0.125 percent on the value of cargo, despite explicit assurances by the Senate Finance Committee in 1986 that increases would not occur. At this new level the tax is generally unfair and especially burdensome to New England interests. The Administration has now identified this fee as an element of its deficit reduction program, estimating that collections will increase by \$165 million over four years through the allocation of trust fund monies for compliance.

U.S. exports have played a major role in supporting the recovery of our economy. Yet, this tax effectively penalizes exports. The additional expense invariably is reflected in higher prices of U.S. products in foreign markets, thus putting U.S. products at a competitive disadvantage. When a U.S. manufacturer such as Polaroid imports materials and components for further manufacture in the United States and marketing of the finished product abroad, they must bear a double burden, which invariably affects competitive product pricing.

The assessment is also contrary to the goal of correlating a "user fee" to the value of the services provided. Since the time that the tax was tripled in 1991 (supposedly to account for covering 100% of the Army Corps of Engineers' Operation and Maintenance costs, instead of 40%), a substantial surplus has accumulated in the Harbor Maintenance Trust Fund. It is our understanding that, at the end of fiscal year 1992, there was a surplus of more than \$120 million in the Fund. This surplus has accumulated despite the fact that compliance levels have been below 50%; full compliance at the current rate of .125% will succeed only in increasing the amount of the surplus further. On the other hand, based upon our calculations of potentially collectible Harbor Maintenance Tax income, derived from the Corps of Engineers' own data, the full Operations and Maintenance costs can be met at the previous assessment level of close to .04%. Increasing a user fee on those who pay, in order to offset the lack of income from those who don't, is poor tax policy. Increasing compliance at higher assessment levels in order to increase a surplus is even worse.

Our foreign trading partners have already entered consultations with the United States over the compatibility of this tax and the Trust Fund surplus with the GATT. A similar challenge in 1988 resulted in Congressional modification of the Customs User Fee to correlate the level of assessment with the actual value of the services provided.

The increase in the tax has put the ports in New England and the Pacific Northwest at a competitive disadvantage with Canadian ports that do not have this additional cost. For example, the increase has meant that a company shipping a container with merchandise valued at \$500,000 must pay \$425 more in Harbor Maintenance Taxes to ship through a U.S. port than it did before the 1990 increase. When the same export transaction is compared to the cost of shipment through Canadian ports, the combination of Harbor Maintenance Taxes and other fees which are not applied to Canadian port movements, makes movement through the port of Boston as much as 40% more expensive than through Montreal. Obviously, this disparity creates a substantial disincentive to the use of Northeast U.S. ports. Loss of business to those ports means the loss of jobs and the loss of support service income.

As tariffs are further reduced under the United States-Canada Free Trade Agreement, and possibly under NAFTA, this competitive burden on U.S. ports will grow. When Mexico is included in a North American Free Trade Agreement, U.S. ports near the Mexican border will also lose business because of the Harbor Maintenance Tax and other non-tariff trade taxes.

A previous GAO study has shown that the government has not done a very good job of collecting the harbor tax on all eligible import, export, and domestic cargo movements. We believe that with full enforcement of the tax, it would be possible to raise the funds needed by the Corps of Engineers for port maintenance at a much lower rate of tax than the current one. However, this increased enforcement, which would be authorized by the Customs Modernization Act, and which has been identified in the President's budget program, should not be used simply for the accounting purpose of general deficit reduction. The nation's international competitiveness is already suffering under this excessive user fee. We submit that a modification of this tax, to accurately reflect actual costs of harbor maintenance and full enforcement, will permit a reduction to assessment levels which enhance competitiveness, and do far more for real deficit reduction than any increase in a trust fund surplus.

Thank you for giving us this opportunity to comment, and I will be pleased to respond to any questions from the Committee.



National Grain and Feed Association

**TESTIMONY BY
DR. KENDELL W. KEITH**

JOINT HEARING

**BEFORE THE
SUBCOMMITTEE ON COAST GUARD AND NAVIGATION
AND THE
SUBCOMMITTEE ON MERCHANT MARINE**

**OF THE COMMITTEE ON
MERCHANT MARINE AND FISHERIES**

**UNITED STATES HOUSE OF REPRESENTATIVES
MARCH 25, 1993**

Chairman Tauzin, Chairman Lipinski and members of the committee:

First, I want to express my thanks to the subcommittees for inviting the National Grain and Feed Association to testify on an issue of vital importance to the agricultural sector of the economy.

My name is Kendell W. Keith and I am president of the National Grain and Feed Association.

The National Grain and Feed Association (NGFA) is the national nonprofit trade association of 1,200 grain, feed and processing firms comprising 5,000 facilities that store, handle, merchandise, mill, process and export more than two-thirds of all U.S. grains and oilseeds utilized in domestic and export markets. The NGFA also consists of forty affiliated state and regional grain and feed associations whose members include more than 10,000 grain and feed companies nationwide.

I am appearing before you today to testify about the damaging effects of federal trade taxes on both the domestic economy and the competitiveness of U.S. exports. The NGFA is particularly concerned about several provisions contained in the budget proposal -- *A Vision of Change for America* -- now being considered by Congress. One proposal would increase, by over one (\$1) dollar per gallon, the tax on diesel fuel used by commercial towing companies on the inland waterways. Another proposal would significantly increase the fees charged on inspections of export grain by the Federal Grain Inspection Service. The NGFA is also concerned about efforts to transfer funds from the Harbor Maintenance Trust Fund to fund activities of the National Oceanic and Atmospheric Administration.

The recently released General Accounting Study -- *MARITIME INDUSTRY: Federal Assessments Levied on Commercial Vessels* -- shows that waterborne commerce already bears a heavy burden of taxes and so-called user fees. Assessments levied by 12 federal agencies on waterborne trade totaled \$1.9 billion in fiscal year 1991 alone. Exports of U.S. grains are directly impacted by a host of taxes, user fees and assessments including the harbor maintenance tax, the vessel tonnage tax, commodity inspection fees and the inland waterways fuel tax.

The impact of maritime taxes and user fees are significant. A typical 50,000 metric ton shipment of corn from New Orleans to Japan via the Panama Canal incurs \$120,423 in taxes and fees using the data from the GAO study. The proposed one (\$1) increase in the inland waterways fuel tax would add another \$273,600 in costs to such a shipment, bringing the total maritime taxes and users fees associated with a typical export shipment of corn to a staggering \$394,023 or \$7.88 per metric ton.

Set forth below are the taxes, user fees and assessments incurred on a typical¹ 50,000 metric ton export shipment of number 3 yellow corn shipped from

¹ The figures used are conservative and are based on the recently released United States General Accounting Office study -- MARITIME INDUSTRY: Federal Assessments Levied on

New Orleans, Louisiana to Japan via the Panama Canal:

1. Certificate Fee for Vessel Tonnage Tax (p.56)	\$4.50
2. Clearance of Vessel (p.56)	18.00
3. APHIS User Fee (p.67)	544.00
4. APHIS Phytosanitary Fee (p.68)	30.00
5. Customs Bulk Carrier Fee (p.68)	100.00
6. Fed. Grain Insp. Serv. Stowage Examination (p.69)	210.00
7. Panama Canal Commission (PCC) Gen. Tug (p.70)	2,700.00
8. PCC Tug Lines (p.70)	50.00
9. PCC Offshore Pilotage (p.71)	800.00
10. PCC Port Pilotage (p.72)	800.00
11. PCC Tolls (p.73)	48,620.00
12. PCC Transit Booking Fee (p.66)	5,060.00
13. Customs Vessel Tonnage Tax (p.76)	5,940.00
14. IRS Inland Waterways Fuel Tax (p.76)	46,512.00
15. Customs Harbor Maintenance Tax (p.79)	6,875.00

Commercial Vessels (March 1993; GAO/RCED-93-65FS). The page numbers referenced correspond to the pages in the GAO report. Additional assessments would be incurred under some circumstances. The barge portion of the movement is based on a shipment from Peoria, Illinois to New Orleans using two twenty-six barge tows.

16. Federal Grain Inspection Service Inspection Fees ²	<u>2,520.00</u>
Subtotal:	\$120,423.50
\$1/gallon increase in Inland Waterways Fuel Tax:	\$273,600.00
Total Cost to Export Shipment:	<u>\$ 394,023.50</u>

INLAND WATERWAYS FUEL TAX

The NGFA's opposition to the proposed 525% increase in the inland waterways fuel tax is based on the following reasons:

First, the \$1 per gallon tax increase would lead to significantly decreased farm income. In 1991, sixty-five percent of all U.S. grain exports, a total of sixty-three million tons with a total value of \$10 - 15 billion, moved on the inland waterways. The price of these grains and oilseeds is determined by worldwide

² This inspection fee is paid directly to the USDA's Federal Grain Inspection Service by the loading export elevator for federally mandated export grain inspection and is in addition to those fees identified in the GAO study.

supply and demand in a global marketplace where U.S. farmers must compete with the production of farmers in Europe, South America, and the far East. It is very unlikely that this proposed increase in transportation costs³ could be passed on to foreign buyers who have a large choice of alternative suppliers.

Additionally, merchandising margins in the grain and feed industry are extremely thin as are the operating margins of most barge carriers. A tax increase of this magnitude is larger than the combined margins of both the export grain and barge industries. Thus, it is inconceivable that this increase could be absorbed by these industries.

The only segment of the industry remaining to absorb this tax increase is the producer himself. A 1985 study by the Department of Agriculture⁴ showed that

³ "Transportation is a key element in the marketing system of bulk agricultural commodities. ... Since most grain shipped by barge is destined for an export point, the cost of barge transportation is a key issue in the total cost of marketing export grain. This cost is especially important with the increased competition from several grain exporting countries. Increased operating costs for barge operators may be reflected in higher transportation rates and reduced bids to producers by river elevators [emphasis added]." Patricia Miller & Lowell D. Hill, ORGANIZATION AND STRUCTURE OF THE BARGE INDUSTRY TRANSPORTING GRAIN AND OILSEEDS, Department of Agricultural Economics, Agricultural Experiment Station, College of Agriculture, University of Illinois at Urbana-Champaign (May 1986).

⁴ Theresa Sun & Lester Myers, A WATERWAY TAX ON GRAINS: A FUNCTIONAL MARKET ANALYSIS, United States Department of Agriculture, Economic Research Service, Technical Bulletin Number 1705 (July 1985).

fully seventy percent of a five cent per bushel fuel tax would be borne by the U.S. farmer. With another \$1 per gallon in taxes, I believe that this percentage will increase to the 85 to 95 percent level. The National Grain and Feed Association estimates that this tax will cause declines in annual farm income of up to \$431 million per year, just in those states which are directly adjacent to the waterways.

Second, the \$1 per gallon tax increase is applied unfairly to only one segment of inland waterway users. Barge navigation is only one of many beneficiaries of inland river operations. Many programs are undertaken for a variety of public purposes, i.e. flood reduction, hydropower, water supply, and bank stabilization. In the absence of all commercial navigation, costs for these other purposes would continue, but the commercial navigation interests are now being asked to pay for all of these costs. By way of analogy, this would be akin to asking the commercial trucking industry to pay for all of the operations and maintenance of the interstate highway system.

Third, the projected revenues derived from the \$1 per gallon tax are based on faulty economic theory. The present proposal estimates revenues in 1997 from this tax to be \$460 million. However, this estimate is based on traffic volume

remaining constant or even increasing slightly in the face of a five-fold increase in operating costs.

As farm income decreases due to this tax and the cost of production increases due to higher transportation costs of inputs such as fertilizer, overall farm production and U.S. exports will decline. In fact, the USDA study quoted earlier estimated that a five cent per bushel tax would cause a decrease in U.S. grain exports of 365,000 tons. With the \$1 per gallon increase, exports could fall more than twice that amount. Thus, as the volume of export grain declines, the revenues from this tax would also decline to levels far below the projected \$460 million.

In addition, there is good reason to believe the true net revenue increase that would be realized by government has been vastly overstated. Given the proximity of the corn belt region to the river system, we would expect midwestern corn prices to be depressed in a range of four to eight cents per bushel, depending on location. If we assume an average decline of five cents per bushel, revenue gains from this tax would be offset by increased federal deficiency payments under current government farm programs.

Based upon USDA's own Final Regulatory Impact Analysis, November 16, 1992, a five cent per bushel decline in corn price would cause additional government costs in a range of \$300 to \$500 million. This impact is for corn and feed grains alone. The added program cost to the federal government due to lower wheat and soybean prices would be in addition to this cost. Thus, even with conservative assumptions about the farm price impact of the tax, we believe a more careful assessment of the full impacts of this tax would demonstrate that the federal government would actually lose revenue rather than gain it with this proposal.

Fourth, the \$1 per gallon tax increase will divert traffic from the inland waterways to other modes of transportation with significant environmental impacts. Barge transportation on the inland waterways is the most environmentally friendly mode, using less fuel per ton-mile, creating less air and noise pollution and having a superior safety record for the movement of petroleum and hazardous chemicals.

In a study conducted by the Minnesota Department of Transportation, it was found that if waterway traffic in Minnesota, one of the states most affected by this tax, was shifted to rail, fuel use would increase by 331 percent, emissions would

increase by 470 percent and probable accidents would increase by 290 percent. For a shift from barge to truck, the increases would be 826 percent, 709 percent, and 5,967 percent, respectively. Thus, by driving cargo to other less environmentally friendly modes of transportation, this tax poses significant environmental risks for all Americans, not just those concerned with commercial navigation on the inland waterways.

Fifth, as a final point, we are extremely concerned about how such a heavy tax will affect U.S. cost competitiveness with our major competitors. The attached table reports data from a recent Purdue University study that indicates the U.S. has four major competitors in corn production whose average cost of production is \$3 per ton less than U.S. However, the high level of efficiency in the U.S. marketing system gives the U.S. farmer a \$9 per ton advantage in delivering corn to world customers. Looking at total delivered cost, the U.S. farmer has a slight advantage of \$6 per ton over major competitors. This heavy taxation of waterways, would effectively add about \$3 per ton to the delivered price. Thus, with this one action, the U.S. government would be eroding 50 percent of our competitive advantage that we currently have in the production and delivery of corn to world markets. Most experts agree that the U.S. has its greatest comparative advantage in the

production and marketing of corn, with even stiffer world competition in the production and delivery of soybeans and other grains, so the percentage loss in our competitive position for other sectors would be even greater. If agriculture is to be given a legitimate opportunity to grow and expand its share of world markets, we must protect our natural competitive advantages and efficiencies in the transportation infrastructure.

However, the grain and feed industry also recognizes the need for all Americans to share in the process of reducing the federal deficit. To that end we would like to make the following suggestions in order to reduce spending and/or increase revenues from the inland waterway sector:

First, the Congress should look to implement a meaningful reorganization of the Corps of Engineers structure. The Corps itself has already put forth a plan to reorganize which would lower its overhead by an estimated \$115 million per year. Although this plan has been put on hold pending further review, we believe that even further savings could be found by efficient reorganization of the Corps of Engineers manpower and resources.

Second, along with any reduction in the overhead of the Corps of Engineers, the Congress must look to reduce Corps of Engineers spending on navigation operation and maintenance. Through careful review of projects and procedures, it would be possible to reduce the Corps operation and maintenance spending by \$35 - 40 million per year.

Third, spreading the tax burden of operating and maintaining the inland waterways to other beneficiaries of the system would bring in additional revenue. It would seem more than equitable that users of the inland waterways other than the commercial towing industry should also contribute to the maintenance and operation of a system which provides many recreational, hydropower and water supply programs. Such revenue increases, while small individually, could easily total to \$50 million per year.

Thus, by focusing on the three areas outlined above the Congress could easily meet the \$200 million a year goal contained in *"A Vision of Change for America"* without completely crippling the agricultural sector of our economy which is so vital to our country's balance of payments and continued economic growth.

FEDERAL GRAIN INSPECTION SERVICE FEES

The NGFA is also extremely concerned about the President's proposal for new user fees to finance the operation of the Federal Grain Inspection Service. Specifically, the proposal -- identical to the one proposed previously by Presidents Reagan and Bush, but rejected by Congress -- would shift approximately \$6.8 million per year in standardization costs to user fees, which could increase FGIS user fees by as much as 25 percent. Currently, industry user fees already pay the entire cost of official inspection and weighing, and account for approximately 76 percent of the FGIS budget. The use of the official system is mandatory for export shipments and is also offered by FGIS designated official agencies as an option at interior markets.

Standardization activities involve establishing and maintaining the official U.S. grain standards, developing and implementing standard methods and procedures for grading and weighing grain, maintaining a quality control program covering all aspects of inspection, and approving equipment used for official inspection and weighing. In addition to benefiting all participants in U.S. agriculture, these activities guarantee foreign customers that the U.S. system of

grain grades and weights is reviewed and overseen by an independent entity administered and funded solely by the U.S. government.

Domestic utilization of official FGIS services is at an all time low. The use of FGIS services is declining and its financial resources low because fees are not priced competitively with other domestic grading services offering comparable quality. A further move by government to force additional costs on the relatively smaller number of remaining users of FGIS services will only exacerbate this problem and cause additional erosion in the FGIS customer base.

Furthermore, the proposal to have standardization paid for by user fees is fundamentally flawed. There are many "users" of the official standardization system, including farmers, country elevators, terminal elevators, and processors. Many of these "users" rely on the unofficial grades which are nevertheless based upon official grades set by FGIS in its standardization activities. All of these "users" benefit from standardization activities. However, we believe that shifting the cost of FGIS standardization activities to industry paid user fees will cause a further erosion of companies using the official system and cause even more of the financial burden to be borne by a small segment of those who benefit. This

spiraling process of increased fees causes a reduction in the FGIS customer base and the need to further increase future fees. The end result will be a disproportionate share of the costs of FGIS standardization activities being borne by exporters who are required by law to use the official system.

HARBOR MAINTENANCE TRUST FUND

The Clinton Administration has proposed increased enforcement of harbor maintenance fees, which consist of an ad valorem tax applied to the value of cargo shipped through U.S. harbors. While we support efforts of the federal government to uniformly enforce the harbor maintenance tax, this tax is a particular burden on U.S. grain exports. As you know, the harbor maintenance tax was more than tripled -- from .04 percent to .125 percent -- as part of the 1990 budget agreement. And, of course, Congress and the President enacted that increase without holding a single hearing on the impact of such an increase on America's ports, export competitiveness, farm income, increased federal farm program expenditures or U.S. jobs.

We understand that efforts are being made to authorize use of harbor

maintenance fees to fund the activities of the National Oceanic and Atmospheric Administration. We strongly oppose expansion of the uses of the trust fund monies. The existence of a surplus in the trust fund is evidence that the harbor maintenance tax can be rolled-back from present levels and not impair the adequacy of the trust fund. The surplus should not be used as an excuse to raid the trust fund.

Thank you again. I would be glad to respond to any questions.

Production and Marketing Costs for Corn: U.S. and Major Competitors*

	Average Cost of Four Major Competitors**	Average Cost U.S.A.
Variable Production Cost	\$56 per ton	\$59 per ton
Average Marketing Cost	\$34 per ton	\$25 per ton
<hr/>		
Total Delivered Cost	\$90 per ton	\$84 per ton

*Data are from : Indiana Agriculture 2000: A Strategic Perspective, Purdue University,
June 1992. Data are based upon 1986 estimates, presumed to the most recent comparative data available on international competitiveness.

**Competitor countries include: Argentina, Brazil, S. Africa, and Thailand.

new orleans steamship association

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**TESTIMONY OF CHANNING F. HAYDEN, JR.
BEFORE THE SUBCOMMITTEE ON COAST GUARD AND NAVIGATION
AND THE SUBCOMMITTEE ON MERCHANT MARINE OF THE
HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES
MARCH 25, 1993**

Messrs. Chairmen and Members of the Subcommittees:

My name is Channing Hayden. I am Vice President of the New Orleans Steamship Association (NOSSA), which represents 60 owners, operators, agents and stevedores on the Lower Mississippi River. I am also President of the National Association of Maritime Organizations, Inc. (NAMO), a federation of thirteen maritime associations on all four U.S. coasts. I appear today on behalf of both organizations, as they both share the same concerns. We applaud your continuing effort to investigate the morass of taxes plaguing the maritime industry. You have assumed a very important leadership role in the first-ever compilation of maritime user taxes. We commend you and thank you for a job well done.

Two years ago, I had the privilege of testifying before the Oversight and Investigations Subcommittee of the House Merchant Marine and Fisheries Committee on this very same subject. Much of that testimony is germane to this hearing, also. Rather than burden the record by repeating it today, I refer your attention to it and ask you to consider it when you deliberate the issues before you.

You have received an excellent, comprehensive report from the Government Accounting Office (GAO) as a result of your efforts and the work of Representatives Tauzin and Saxton. Until now, there has been nothing to substantiate the magnitude of the user fees that burden the maritime industry and the onus they place on U.S. products in world markets. But as important as the GAO study is, it must be viewed as the solid foundation on which to further the process. It must become the basis for an economic impact study of maritime user fees. We believe such a study will prove that maritime user fees are a competitive impediment placed on U.S. exports; that user fees are pricing many U.S. products out of many world markets; and, that user fees have done more harm to the country than good. The GAO study confirms the estimates of maritime user fees contained in my 1991 testimony. An economic impact study, we believe, will support our allegations that user fees stifle America's ability to compete in the burgeoning world economy.

The economic impact study we suggest should have two separate parts. First, Congress should study existing user fees (excluding Customs' duties) to determine how the current \$2 billion in taxes has affected the competitive position of U.S. products. Next, Congress should study, before implementation, the economic impact of the user fees proposed by the Administration and those authorized for the Coast Guard and the FMC.

The FMC's new Automated Tariff Filing and Information (ATFI) user fee is a particularly odious tax. My 1991 testimony came at a time when there was a great deal of opposition to the recreational boaters' user fee, the so-called Coast Guard decal. Members of the House and Senate were arguing vehemently against the decal as an unfair tax. My 1991 testimony applied the Congressional arguments against the decal to all maritime user fees. In the end, the decal was repealed. But the lost revenue was made up through the FMC by new user fees for access to the ATFI data. In effect, Congress shifted the burden of an unfair tax from recreational boaters to the commercial maritime industry. If the tax was unfair when applied to recreational boaters, it remains unfair, no matter who pays it.

The saga of the boaters' decal shows a flaw in the Congressional budget process. It is contrary to good management principles for each committee and subcommittee to be assigned the task of raising a specified amount of revenue. Such a process can only result in the situation we find ourselves in now--a morass of taxes that are not thought through, not studied on any systematic basis, and have the potential of doing more harm to our economy than good.

Congress, and your subcommittees particularly, should carefully study both aspects of the Administration's proposed maritime user fee package. The Administration has proposed to continue the tonnage tax and harbor maintenance tax rather than phase them out as Congress originally intended. The study we have proposed on current user fees should identify the negative economic effects of such a plan.

In addition, the Administration has recommended increasing the Inland Waterway Fuel Tax by \$1.00 per gallon. Estimates are that this increase would add as much as an additional \$4.20 per ton in new taxes on U.S. grain exports moving through Gulf ports. This equates to roughly 10½¢ a bushel on corn, a commodity where, like all grain products, differences of ¼¢ or ½¢ per bushel can shift the sale from American to foreign grain. The proposed Inland Waterways Fuel Tax increase will have a disastrous effect on U.S. grain exports.

There are estimates that equate this dollar per gallon tax increase to as much as \$4.41 per ton of new taxes on U.S. coal exports moving through Gulf ports. This will place a tremendous burden on a commodity whose export growth over the past ten years has been a glowing success; a product that represents new U.S. overseas sales; an export that has had a beneficial impact on our balance of trade.

Though cloaked in the guise of a user fee, the increase in the Inland Waterways Fuel Tax is no more than a tax on farmers, a tax on coal miners, a tax on every worker in the United States whose job depends on exporting U.S. products to world markets via our river system. It is imperative that the effects of the proposed tax be thoroughly and comprehensively examined before it is included in the federal budget!

Considering all of the above, we make the following recommendations. First, Congress must study, on a macroeconomic level, the impact of current maritime user fees, including, but not limited to:

- The overall economic impact of these taxes on the competitive position of U.S. exports on world markets.
- The overall effects these taxes have on federal revenues. We suspect that raising federal revenue through maritime user taxes causes an equal or greater loss of revenue in

other areas and/or an offsetting, or greater, increase in federal expenditures in other programs. For example, a \$1.00 increase in the inland waterways fuel tax may cause a reduction in income tax receipts and/or a drop in grain exports, causing an increase in farm subsidies.

- Though it is currently not in vogue to talk about trickle-down economics, we believe that the user fee study should include the negative trickle-down, or multiplier, effect of these taxes. By way of example, I have attached a recent article from the *Wall Street Journal* on the ripple effect of closing the Sears Catalog Division. Any economic study of maritime user fees must include the negative ripple effect these taxes have throughout the economy so that the net consequences of the tax can be evaluated.
- The study should measure the net positive impacts a reduction or elimination of these maritime taxes may have on the economy. Again, this should be at the macroeconomic level and consider positive ripple effects, including such consequences as a beneficial influence on the U.S. balance of payments.
- The study we are recommending would expand on the Maritime Administration's (Marad) recent analysis of the port industry. Marad found that in 1991, port industry operations were responsible directly and indirectly for:
 - 1,517,643 jobs;
 - \$51.8 billion in total personal income;
 - \$22.4 billion in business income;
 - \$130 billion in business sales revenue;
 - \$70 billion in total contribution to gross domestic product;
 - \$14 billion in federal tax revenues; and
 - \$5.3 billion in state and local taxes.

Marad's analysis focused on economic activity needed for the movement of waterborne commerce; for example, vessel services, trade services, cargo handling and storage, and inland transportation and handling. As such, the scope of the study did not include the farmers who grew exported grain, the miners who dug exported coal, or the workers who assembled the tractors that were sold overseas--all of whom benefitted from exporting the products of their labor. This comment, however, should, in no way, be considered a criticism of Marad's excellent work. On the contrary. Marad's analysis, coming as it does at the same time as the GAO study, reinforces the clear and substantial need for a comprehensive economic impact study of U.S. foreign trade and the net positive benefits that will be produced by controlling or reducing the user tax burden on this vital segment of the American economy.

Next, we recommend that Congress require the same kind of detailed economic analysis for new maritime user fees as we have proposed for current fees, both non-implemented, currently authorized fees and new fees before Congress enacts them. When several new fees are under consideration, both the individual effects and cumulative effects of the proposed taxes should be specifically examined. Only then will Congress have valid data and a rational system for making such important decisions.

Finally, we recommend that Congress extend the GAO study to include state and local maritime user fees. These taxes, too, have a negative impact on the competitive position of U.S. products on world markets, yet we cannot even guess their magnitude. We suggest this GAO study as a prelude to another economic impact study that will integrate the total effects of all maritime user fees--federal, state and local--on the U.S. economy. As we expect state and local maritime taxes to have the same negative economic impact as federal user taxes do, we'll be back! Next time we will urge Congress to curb or reverse the growth of state and local maritime user taxes.

Thank you for allowing me to appear before you today. I will try to answer any questions you might have.

Trickle-Down Pain Demise of the Catalog Hurts Small Businesses That Counted on Sears

In California, a Feed Store
Takes a Hit; in Chicago,
A Printing Plant Closes

Implications for the Recovery

By JUDITH VALENTE and CHRISTINA DUFF
Staff Reporters of THE WALL STREET JOURNAL

You wouldn't think the demise of the Sears catalog would concern Selene Wacker, a recent graduate of the Art Institute of Chicago and fledgling interior decorator. It does.

Ms. Wacker, 25 years old, worked for Nugent Wenckus Inc., a small studio in Des Plaines, Ill., that photographed home furnishings for the Sears, Roebuck & Co. catalog. She helped arrange sets to look like living rooms, bathrooms and bedrooms. The Sears work amounted to 20% of the studio's annual revenue, some \$400,000. A week after losing that account, the firm laid off Ms. Wacker, another decorator and two photographers — 10% of its work force.

That started a chain reaction. Kennicott Brothers, a family-owned flower wholesaler in Chicago, lost \$8,000 in business. That is what Nugent Wenckus paid most years for fresh-cut flowers to dress up catalog photographs.

Hoos Drug & Photo Center in Evanston, Ill., won't get the \$10,000 that Nugent Wenckus usually spent there each year on film for Sears pictures. And Des Plaines Lumber, which supplied Nugent Wenckus carpenters with wood to build sets, is losing its \$25,000-a-year account.

Hidden Victims

When giants like Sears, General Motors Corp. or Boeing Co. slash jobs, the move often sets off ripples that touch countless other businesses and their employees. Sears, for example, is laying off 50,000 employees and closing its catalog business and 113 retail stores by year's end, but the job toll will be much higher because of the many businesses that worked on the catalog. Others with only tangential ties to the operation will be affected as well. They are the hidden victims of corporate compression.

"If I don't find something else soon, this is going to be a disaster," says Ms. Wacker, who worked at Nugent Wenckus only five months and is eligible for just \$50 in weekly unemployment benefits.

This trickle-down effect has implications for the recovery. Corporations that are scaling back may well be healthier in the long run, but their layoffs, as well as chain-reaction job losses, have an immediate effect on incomes that tends to impede growth. "You have a situation where X number of people are drawing unemployment checks, instead of salaries. This is a problem. This keeps the economy from growing as fast as it could," says Kenneth Godstein of the Conference Board, a business research group in New York.

'Multiplier Effect'

Although there is no sure way to tell how many additional businesses are likely to suffer in the wake of corporate cutbacks, "there's no doubt there is a multiplier effect," says Paul Flaim, a Labor Department official.

Certainly, not all the businesses that worked for Sears will have to let employees go, but the loss of revenue still hurts. "We don't like to lose any customer," says owner Harrison Kennicott, the flower wholesaler. At Des Plaines Lumber, "\$25,000 is still \$25,000," remarks Thomas Scheck, president.

Sun Lee wasn't so lucky. Mr. Lee came to the U.S. from Hong Kong 20 years ago, hoping to open his own studio. He found a niche photographing color clothing swatches for the catalog. Eight years ago, he and a partner opened L&N Studios in Chicago. Sears provided 85% of the business, about \$200,000 in annual revenue. With little hope of replacing the Sears business, Mr. Lee says L&N probably will close.

Now he worries about paying the 14 years left on his mortgage and putting his three children through college. He hasn't told his son yet that he can't visit Disney World this year. "Maybe I'll be able to send him on a school trip to Washington," Mr. Lee says.

Small businesses such as Mr. Lee's generated a vast pool of new jobs in the 1980s, and a similar job creation is considered essential now. But these days, small companies aren't creating jobs as fast as corporations are erasing them. "We're not planting flowers quite as quickly as we're pulling out weeds," says Diane Swank, an economist at First Chicago Corp.

The Human Cost

Harder to gauge is the human cost. This is particularly true in the Sears case: Many of the outside workers who helped produce the catalog have specialized skills that won't transfer easily to other industries.

That was the case for the printers at R.R. Donnelley & Sons Co. in Chicago. Two days after Sears's announcement, the large printing concern decided to close the Chicago plant that worked primarily on Sears catalogs. Lost: 800 jobs.

Many of the printers had never worked elsewhere. At Buster's Bar and Grill, the cozy diner where plant workers gathered after the announcement, Donald Hohmann told of starting at the plant — Donnelley's oldest and a Chicago landmark — right out of high school. Mr. Hohmann, now 33, met his wife, a secretary, at the plant. Their first date was a company Christmas party.

The Hohmanns, who have two young sons, will lose a combined income of \$80,000. Mr. Hohmann might be able to transfer to another Donnelley plant, but says he is likely to earn \$3 to \$5 less an hour in such a move. "We've got to sort out what we're going to do with ourselves," Mr. Hohmann says.

In Los Angeles, model Kelly Anderson says she lost 70% of her yearly income (she declines to specify the amount) with the end of her work for the catalog. Her stylist, Claire Rich, who makes about \$450 a day, is out of a job. In New York, Commercial Graphics Inc., the production company that photographed Ms. Anderson wearing young women's apparel for the catalog, figures it will lose \$1 million a year in income.

Losses in Baton Rouge

That is bad news, too, for the small photo processor that stood to earn \$16,000 for handling the 800 rolls of film Commercial Graphics planned to use on its next photo shoot for Sears. And worse news for the city of Baton Rouge, where hotels, restaurants and four plantations lost about \$200,000 — the money Commercial Graphics planned to spend in the Louisiana capital if the shoot hadn't been canceled. "I'm disappointed for our city and our economy," says Henri Fourrier, of the Baton Rouge Convention and Visitors Bureau.

And those are people who can relate their losses directly to the Sears decision. On the opposite end of the country, Hal Martin, owner of an animal-feed store in Sutter Creek, Calif., population 2,202, is worried about his bottom line.

Mr. Martin's store, the Feed Barn, is, says he adds point out, "Right Behind Sears." He says at least one in five of his customers comes by after ordering tools and other supplies at Sears's catalog store. Spillover business adds about \$200,000 to the Feed Barn's annual sales, Mr. Martin estimates.

"This is going to have a big impact on me," he laments.

Other Sutter Creek shop owners fear the catalog store's closing will turn the area into a ghost town. "People don't shop in a depressed area," says Shirley Scott, who owns a flower shop next to the Sears. Ms. Scott says residents of a nearby senior citizens' apartment complex are most likely to suffer. Most of them don't drive anymore, and there isn't bus service to Sacramento 40 miles away, the nearest city with major retail stores. "It's terrible if you can't buy a sheet or a towel in your own town," Ms. Scott says.

Little Town Blues

Anxiety hangs over dozens of other towns where Sears stores provided an anchor for local businesses. In Greenfield, Mass., population 19,000, Sears has stood on Main Street for 64 years, in one of the few traditional downtowns left in New England, with courthouse and town square. Norman Thidemann, town manager, fears the Sears closing will stymie future commercial development. The town lost its J.C. Penney store a year ago. Mr. Thidemann frets that townsfolk will abandon downtown stores altogether for the Wal-Mart under construction just inside the city limits.

Some of the bigger companies that did significant business with Sears are scaling back their growth plans. Alternate Postal Delivery Inc. in Grand Rapids, Mich., distributed as many as 160,000 Sears "Big Book" catalogs each year in 13 Midwest markets. The firm had just signed a contract to add six more markets, doubling the number of Sears catalogs it delivers. Sears was Alternate Postal's second-largest catalog customer. The move "halts a pretty substantial growth plan for us," an Alternate Postal executive says.

The U.S. Postal Service itself figures it will lose \$30 million to \$100 million in yearly postage revenue from the mailing of Sears catalogs.

Store Owners Hit

Perhaps most directly affected are the people across the nation who bought the catalog stores a few years back, when Sears sold them off and agreed to supply the catalogs. People like Joyce and Robert Caudle, who bought the store in Fairfield, Ill., four years ago.

Mr. Caudle, 55, has worked as a Sears salesman since he left the Air Force in 1963. Finding a new job at this stage of life in a corn-growing town of 6,000, he says, won't be easy. "When you give all your time to one company, you don't have time to develop other skills," says his wife, Joyce, who also worked in the store.

The Caudles say they might have to dip into emergency savings to pay their home mortgage. They are rethinking plans for their 17-year-old daughter's education. Diane, a straight-A student, wants to attend a large university. Her mother told her she may have to settle for a smaller, less expensive commuter college.

"We thought this store would be our investment and our life until we retired," Mrs. Caudle says. "Now it's scary to face the future."

TESTIMONY OF

THE ILLINOIS INTERNATIONAL PORT DISTRICT

BEFORE

THE SUBCOMMITTEE ON COAST GUARD AND NAVIGATION

AND

THE SUBCOMMITTEE ON THE MERCHANT MARINE

OF

THE COMMITTEE ON MERCHANT MARINE AND FISHERIES

OF THE

UNITED STATES HOUSE OF
REPRESENTATIVES

OF THE ONE HUNDRED THIRD
CONGRESS

TESTIMONY GIVEN BY:

ANTHONY G. IANELLO Jr.
EXECUTIVE DIRECTOR

MARCH 25, 1993

I wish to extend a sincere "Thank you" to the distinguished Chairmen and members of the two Subcommittees for the opportunity to testify before you today. I've been asked here to discuss the distinctive characteristics of the Great Lakes ports, the impact of Federally-mandated user fees, how they relate to maritime commerce of the Great Lakes and the availability of alternative modes of transportation. My views are based on my personal responsibilities as Executive Director of the Illinois International Port District, the Port of Chicago.

The Illinois International Port District has responsibility for the public maritime facilities and the navigable waterways within the corporate city limits of, the City of Chicago. We are a totally self-sufficient corporate entity; by that I mean, we receive no tax dollars of any type to maintain our operations.

Therefore, I believe, I can also speak for much of the private sector maritime interests within the area designated by the Army Corps of Engineers as the "Port of Chicago". This includes all commercial maritime shipping related to major industries in Chicago, Cook County, northern Illinois and even the steel mills of northwest Indiana as well. Much of what I am saying indeed reflects the views and concerns of maritime interests from all eight states encompassing the American Great Lakes.

A distinctive characteristic of the American Great Lakes ports is our proximity to Canada. We compete directly with nearby ports of another country. A ship can dock at Detroit or across the river at Windsor. Grain can be exported through Duluth or Thunder Bay. The same cargo can start its maritime journey at Chicago or at Montreal.

So for us in the Great Lakes, U.S. costs imposed on waterborne carriage can lead not only to the loss of traffic to competing land modes and coastal ports in the U.S., but also to diversion of shipments through Canada. The most recent Maritime Administration study relating to this matter available to us, reports that in 1989, more than \$11 billion of U.S. international trade moved through Canada.

Let me say that the Saint Lawrence Seaway has never achieved the promise predicted for it, or anticipated when it was planned and built in the 1950's. Containerization held great promise as these shipping containers came into first limited, and then later, general use. Larger ships were built to take advantage of this shipping innovation. Unfortunately, this new breed of ships were too large to pass through the Seaway locks and we lost virtually all container traffic to coastal ports.

The Staggers Act provided another serious blow. Deregulation of trucking and the railroads catapulted them into the container transport business. Double-stacked unit trains have eliminated almost all but bulk cargo to the Great Lakes ports.

Additionally, the consolidation of eastern railroads into the Conrail system strengthened the railroads' position even more. The Commerce Commission permitted the abandonment of lines of lesser profit, in effect, creating a single, east/west trunk line service.

The Commerce Commission also allowed the purchase of the Milwaukee Road (the Chicago Milwaukee St. Paul and Pacific Railroad) by the Soo Line which is, in turn, owned by the Canadian Pacific Railroad. Today, grain from Danville, Illinois, 150 miles south of Chicago, passes by the Chicago port over this Canadian-owned, multi-line service en route to Montreal where it is loaded for shipment to international overseas ports. All this has contributed to the present state of Great Lakes shipping. Increased levies such as the Harbor Maintenance Tax can only make matters worse and further reduce the competitiveness of Great Lakes ports.

Having said that, let me state that Chicago is a unique city in that it is a major marine terminus served by the St. Lawrence Seaway. Yet, it also provides year round port service directly from the Great Lakes to the Gulf of Mexico vis-a-vis the Illinois and Mississippi waterways. Our river service also faces direct competition from trucks and railroads. In this multi-transport role we share the concerns of the Seaway ocean vessel shippers "Salties", our fellow "Lakers", and the barge interests of the Inland Waterways.

Prior representatives have graphically depicted the effect of the proposed inland waterways fuel tax, an increase in the vessel tonnage tax, Customs user fees, Coast Guard user fees, the work tax on Merchant Mariners, Seaway tolls, multi-jurisdictional pilotage concerns, and finally the Harbor Maintenance Tax as they relate to their individual industries. The Subcommittees are to be commended for their sponsorship of the ground-breaking GAO study which has now identified 117 such assessments on maritime trade currently in place.

On the proposed \$1 a gallon Fuel Tax increase, I do not wish to repeat what has previously been presented so well. Suffice it to say that the burden of increased fuel cost and operational costs on the inland river system cannot be contained or borne by operator concessions any longer. The proposed 526% increase in the fuel tax clearly will result in significant loss of traffic and service on the Inland Waterways System. We believe that further study of the effect of this fuel tax is warranted before any further increase is considered.

In the case of the Harbor Maintenance Tax, I want to emphasize that I am speaking for the entire American Great Lakes Ports Association membership. In addition to Chicago, our association includes the ports of Burns Harbor, Indiana; Cleveland, Ohio; Detroit, Michigan; Duluth, Minnesota; Erie, Pennsylvania; Green Bay, Wisconsin; Lorain, Ohio; Milwaukee, Wisconsin; Monroe, Michigan; Ogdensburg, New York; Oswego, New York; Superior, Wisconsin; and Toledo, Ohio.

We in the Great Lakes community are greatly disappointed with the large and unwarranted increase in this burdensome tax imposed in 1991. After years of full Federal financing of deepwater harbor maintenance, because of the general benefit to the U.S. economy and its people, a Harbor Maintenance Tax of .04% ad valorem was imposed in 1986 to cover 40% of the Army Corps' spending for this activity. This was done with the understanding that the tax rate would not be raised further because, as stated by the Senate Finance Committee at that time, higher rates would "disadvantage the competitiveness of American products and commodities in the international marketplace, and likely result in economic disruption of port industries".

This is 1993 and the tax that we were told was "necessary" but would "never be increased above .04%" is currently .125% ad valorem. Members of this Committee, the foresight of the Members of the 99th Congress was acutely accurate when they predicted any raise above the .04% Harbor Maintenance Tax would damage the U.S. maritime industry. This increase was yet another added factor in stunting the growth and global competitiveness of Great Lakes ports.

You have already been given specific examples of how this excessive tax can and will hurt U.S. Great Lakes maritime competitiveness. I truly believe the many maritime taxes, fees, etc., at their inception, were well-intentioned, aimed at a specific purpose, but cumulatively they have grown into a heavy burden. They can, over time, collectively become the straw that breaks the camel's back. We strongly support previous testimony on this point, specifically that the Harbor Maintenance Tax should be rolled back to .04%.

Beyond the proposed fuel tax and the Harbor Maintenance Tax, there are several other depressants that have markedly reduced the competitiveness of Great Lakes ports. To protect American jobs and produce employment, in 1904, legislation was sponsored that decreed all U.S. Military cargo to be carried exclusively aboard U.S. flag vessels. To foster the American Merchant Marine, the Merchant Marine Act of 1936, was enacted. The Cargo Preference act of 1954, required that at least half of all Government-generated cargo subject to the law, be transported on privately owned U.S. flag commercial vessels, when they are available at fair and reasonable rates.

The legislation of 1904 was 89 years ago, 55 years prior to the opening of the St. Lawrence Seaway System. Great Lakes ports, including my Port of Chicago, had no real stake in international shipping at that time. We had no link to the oceans of the world. Today, we have. And, if the restrictions themselves were not damaging enough, ocean-going U.S. flag ships ceased serving the Great Lakes four years ago. There is no ocean going U.S. flag service on the Great Lakes.

We see cargo preference as a discriminatory, exclusionary policy. It denies cargo opportunities to us because it mandates a service that we in the Lakes cannot provide and over which we have no control.

When a maritime reform bill is offered, we would ask that there be consideration of an amendment that would exempt the Great Lakes ports from cargo preference requirements. Alternatively, if U.S. shipping companies receive government subsidies, ocean-going U.S. flag ships should be mandated to provide regular service to Great Lakes ports.

I would like briefly to address other issues which will have a negative influence on Great Lakes international shipping, and further contribute to cargo diversion. Foremost is the Shipbuilding Reform Act introduced in the last session by Congressman Gibbons. It required that ships built or repaired in government-subsidized foreign shipyards be required to pay the amount of the subsidy before entering a U.S. port. This would be disruptive enough for those U.S. coastal ports which have no nearby competing port.

For ports of the Northern tier states, especially those of the Great Lakes, the penalty would be especially severe. A ship destined for Lake Erie can go to Toronto and escape the levy. A ship bound for Detroit or Toledo can go to Windsor. And a ship with cargo for Chicago, Burns Harbor, Milwaukee or Duluth could escape payment by discharging its cargo in any Canadian port from Montreal to Thunder Bay. The Port of Vancouver offers a tax-free alternative to Seattle-Tacoma. In the Great Lakes and Pacific Northwest, unfortunately, Canadian ports are an easy alternative, one that will cost cargo and jobs.

A further example is the International Trade Commissions' well-intentioned but damaging restrictive tariffs on imported steel products. Last year, stevedores in our facilities handled 486,432 tons of imported steel. The entire Port of Chicago handled in excess of one million tons. One of our area's leading ship's agents estimates we could lose as much as 75% of this cargo if the heavy tariff penalties that have been proposed are allowed to stand.

Tariff levies might increase profitability of the steel industry somewhat, but they will not materially aid the economy. They will certainly have a damaging effect on the metalworking industry. This will increase the cost of goods produced by this basic material. We believe, in fairness, that there be further studies to determine the effect of tariff penalties and how they will impact maritime commerce.

Domestic companies buying foreign steel products will continue their overseas purchases, but with one major difference. Now they will have their requirements produced, stamped, headed, slit, sheared, blanked, drawn and formed overseas as well. The assemblers will buy their parts finished overseas. The Americans here who now do this work will lose their jobs and the Great Lakes will lose another major market to containerization and rail service.

This tariff will not create jobs in the steel industry. The U.S. steel industry will not hire additional people. Tariff protection to an ailing steel industry obviously will restrict imports and will strike another serious blow to U.S. ports, especially the Great Lakes ports, Midwest labor and the American consumer who will be forced to pay higher prices.

In summation, I request a serious review and assessment of the aforementioned examples, those taxes and fees which I have referenced. The positions which I have outlined I feel will increase and strengthen the viability and competitiveness of the Great Lakes ports. There are also responsibilities to collect taxes and fees, rollback the tax level on the Harbor Maintenance Tax and responsibly fund for its collection. The Presidential proposal to authorize annual expenditures by Customs for increased enforcement of the Harbor Maintenance Tax is compulsory.

AGOTC

Agriculture Ocean Transportation Coalition

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AGOTC POSITION ON THE MULTIPLE USER FEES ASSESSED ON OCEAN TRANSPORTATION

The AgOTC is the national multi-commodity agriculture transportation organization. Members include growers, processors, suppliers and vendors to the farm, forest, fiber agriculture industry.

The AgOTC is participating in the coalition organized by the American Association of Port Authorities in order to draw attention to the detrimental impact of the multitude of user fees being imposed on US international freight transportation.

Agriculture comprises the largest volume of export in US foreign commerce. As we know, exports have been largely responsible for keeping the US domestic economy "above water" during these past few years. As both President Bush and President Clinton have publicly stated, export markets for US products provide the greatest opportunity for future US economic growth.

Agricultural products tend to compete in a world marketplace where many countries can source the same product. This means that margins are thin already, while substitution of foreign agricultural products is a constant threat. The same is true for virtually every other agricultural product we export: seed, cotton, forest products, nuts, rice, fresh fruit, produce, etc..

When the US government imposes user fees, it threatens the competitiveness of US agricultural exports. User fees such as the harbor maintenance tax, the proposed barge fuel tax increase, Coast Guard fees, truck and rail fuel taxes, vessel tonnage taxes and others, combine to create a substantial burden on US exporters.

We are concerned that Congress continues to enact these new fees in a haphazard manner, with little or no understanding of the aggregate cost to the US exporter. Thus, AgOTC is pleased that the General Accounting Office has, pursuant to direction from the House Merchant Marine & Fisheries Committee, assessed these costs. Short-term Federal revenue objectives can and do impact long-term economic viability of US agriculture, and the millions employed in our diverse industry.

In sum, agriculture is the largest component of the US export trade. US farmers, producers, processors and exporters cannot continue to absorb layer upon layer of fees and trade taxes while our competitors in Canada, Mexico and around the world do not face similar burdens.

National Party Boat Owners Alliance, Inc.

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March 17, 1993

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Chairman W J (Billy) Tauzin
Coast Guard and Navigation Subcommittee
Washington, D. C. 20515-1803

Dear Chairman Tauzin

In anticipation of the joint hearing to be held on March 25, 1993 by the Subcommittees on Coast Guard and Navigation and Merchant Marine we would like to take this opportunity to acquaint new committee members with the National Party Boat Owners Alliance (NPBOA), and to touch base with the members who have been serving on these committees all along.

Our organization has been representing licensed owner/operators of charter and party fishing boats, excursion and ferry boats since 1952. We participated in the formulation of safety regulations under P.L. 84-519 that became known as Subchapter T of the Coast Guard regulations which went into effect in 1958. Through the years NPBOA has offered insights and comments to subcommittees of the Merchant Marine and Fisheries Committee both in writing and through testimony at hearings, additionally representing such organizations as

Sportfishing Association of California
Golden Gate Fishermen's Association
Oregon Charter Boat Association
United Boatmen of New York and New Jersey
Montauk Boatmen's Association
Connecticut Boatmen's Association
Interstate Passenger Boat Association
Cape May Charter and Party Boat Association

Throughout the last 41 years NPBOA's goal has remained that of keeping regulations within the realm of the practical whether they involve safety of life at sea or these so-called user fees. Kindly accept the following comments as NPBOA's contribution to the information your committees are seeking during the scheduled hearing.

Sincerely yours,

Capt. George F. Glas
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Comments by the National Party Boat Owners Alliance Regarding the Effects of
Coast Guard and other Federally Mandated User Fees on the Maritime Industry
for the March 25, 1993 Joint Hearing of the Subcommittee on
Coast Guard and Navigation and the Subcommittee on Merchant Marine

The National Party Boat Owners Alliance (NPBOA) wishes to thank the committees for commencing an investigation into how user fees affect the maritime industry. It is requested that our comments be made part of the record of this hearing.

It is the **cumulative** effect of multiple user fees imposed on the same small entities by different departments of the government that threatens the viability of these businesses. We have already been hit with fees imposed by the FCC, a tremendous jump in the beer stamp fee by BATF, a \$3.00 departure fee, and while it is not in the form of a fee to the government, the high cost of complying with the drug/alcohol compliance program. To top those, as of this date, our segment of the maritime industry is existing with the proposed Coast Guard user fees hanging over our heads like the proverbial Sword of Damocles.

After having received reams of comments from operators in the industry and having conducted public hearings on the proposed user fees throughout the country, Coast Guard has not as yet published an Interim Proposal that might mitigate the excessive amounts of the initially proposed fees. Until Congress gives the Coast Guard some direction in either drastically reducing or eliminating some of these fees altogether, we are still looking at the same fee schedule proposed by Coast Guard in compliance with its assignment to establish user fees mandated by the Omnibus Reconciliation Act of 1990.

In the beginning of Coast Guard's efforts to establish fees, we had been assured that they did not want to drive anybody out of business. Yet without having addressed the entire spectrum of "services" to be taxed, Coast Guard has dichotomized that premise by saying, on the one hand that it "expects that the proposed user fees will not have a significant impact on this industry", while on the other hand "the most marginal firms in this industry which were making little or no profit might be forced to exit the industry".

As of now, proposed annual Coast Guard inspection fees for vessels:

<u>54 feet or less</u>	<u>54 to 65 feet</u>	<u>65 to 130 ft.</u>
\$820	\$880.00	\$1095.00

Proposed Coast Guard fees for marine licensing, when the "Evaluation Fee", "Issuance Fee" and Partial Exam for Upgrade" are added to a mariner's mandatory physical exam and drug exam, the total cost would be approximately **\$305.00**. When it comes to the cumulative costs for a new license, the proposed C.G. fee is **\$197.00**, and added to that are the physical and drug exams, the cost of obtaining First Aid and CPR certificates and the cost of licensing schools. Frequently, small vessel owners find it a necessity to sponsor a prospective captain and help pay his licensing costs. Those costs are prohibitive, averaging some **\$900**, without including the expenses involved in lodging and travel to and from a Coast Guard Regional Examination Center.

Coast Guard had intended to issue separate proposals on plan review, admeasurement, progressive inspections, stability tests, etc. Therefore, we still do not know what the entire fee structure will be. However, if Coast Guard's proposed fee of **\$424** for an excursion permit is any indication, those fees will be excessive as well.

NPBOA feels that both Coast Guard and Congress could alleviate this threat to the very survival of large numbers of small maritime business entities by invoking Section 2110 as quoted by Coast Guard, which states **Exemption from fees "if in the public interest"**. Safety of life at sea is in the public interest. That was and still is the primary purpose for compliance with T-Boat regs. However, it is also in the public interest to save small maritime businesses from being crushed by government in this instance by excessive taxation.

(Comments of NPB0A continued)

Even though such businesses especially those in the party fishing business might be "marginal" in Coast Guard's estimation, they manage to provide a family's sustenance often for 2 or more generations. They need the boat's income not only to pay their operating expenses which in turn sustain other small businesses, such as Bait and tackle stores, docks, restaurants, fuel suppliers, engine and electronic parts and repairs, gas stations, motels, --- and the list goes on. They also need the boat's income to pay their vessel's mortgage. In many cases, family homes have been used as collateral and when a boat's mortgage isn't paid, not only can the boat be seized for sale, but if sufficient moneys cannot be raised in a depressed market, banks will go after the house as well.

At the present time, both the administration and the congress are concerned with helping the middle class which has been so hard hit. It would certainly be in the public interest to help small maritime entities stay in business through the simple expedient of not taxing them out of existence before they even have a chance to earn any income. \$2,10-101 of Coast Guard's proposal concerning Annual Inspection Fees states: **"Payment required 'to establish a privilege of inspection'."** That is no privilege. Inspection is a mandated requirement. Now, paying a fee for that inspection is becoming a requirement. Either you pay the fee or you are out of business! Therefore, payment of said fee can in no way be construed as a "privilege". Unfortunately, this is an anti-safety regulation precipitated by previous administrations that had no understanding of what it has taken to achieve and maintain such an excellent safety record. Obviously, the bottom line was of paramount importance and safety of the public's life at sea be damned.

Add to these pending Coast Guard costs the outrageous charges by FCC that are already in effect. Inspection of small passenger vessels is either \$320 or \$360 depending on the vessel's location. In addition there are fees for Renewal of Radio Operator Licenses (\$35) and station Permits (\$35.00), and base stations (\$75). And let's not forget the BATF cost for a beer stamp which increased from \$24 to \$250 per year.

Mandated drug program minimum costs after the initial start-up costs of joining a consortium, etc., range anywhere from \$186 to \$435 per vessel and up. While the \$3.00 departure tax had been designed for ships on international voyages, because of a glitch in the way it was written, small passenger vessels in domestic service became entangled in that net. After prolonged study of the problem, IRS modified its definition of "overnight" which took at least some of the vessels that specialize in night fishing trips off the hook. Others have been pursued by IRS for back taxes, penalty and interest commencing immediately after the final definition of "overnight" was published.

These fees are in addition to ever-increasing and expensive equipment regulations. However, a potentially devastating "user fee" for this industry would be the much talked about **BTU tax**. One of the numbers that has been bandied about is 8¢ per gallon. Let's say a party fishing boat uses 40,000 gals. per season. Multiply that by 8¢ per gallon and we're looking at a tax of \$3200 on businesses that are just barely surviving. Add something like that to fees already mandated and government will have succeeded in scuttling a lot of small maritime businesses.

The fact that the previous two administrations pushed for these user fees until Congress finally knuckled under does not mean that these fees have to stand forever. At the beginnings of inspection service, Steamboat Inspection, Congress in 1886 realized that the program was for public safety and should be funded through appropriations. That continued for a period of 104 years, until the Budget Reconciliation Act of 1990. We trust that the new Congress will rethink the user fee aspect of that Act and rescind it in an effort to help small passenger vessel and concomitant businesses to survive.



TESTIMONY SUBMITTED FOR THE RECORD BY JOHN TERPSTRA, EXECUTIVE DIRECTOR OF THE PORT OF TACOMA, WASHINGTON, TO THE COAST GUARD AND NAVIGATION SUBCOMMITTEE AND THE MERCHANT MARINE SUBCOMMITTEE OF THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE FOR THEIR HEARING ON THE IMPACT OF FEDERAL USER FEES LEVIED ON THE MARITIME INDUSTRY

On behalf of the Port of Tacoma, I appreciate the opportunity to submit testimony on the effect of federal trade taxes on U.S. public ports, especially in the Pacific Northwest.

We endorse the testimony of the American Association of Port Authorities and the other members of the Trade Taxes Group that testified before your subcommittees on March 25. We are pleased that Tim Lovain, who represents the Port of Tacoma in Washington, DC, also chairs the Trade Taxes Group. This Group seeks to increase the awareness of federal policymakers to the adverse effects of trade taxes on the competitiveness of U.S. exports and U.S. ports.

Washington State is the most trade-oriented state in the nation. We export products from airplanes to apples. The Ports of Tacoma and Seattle together form the second-largest load center for international trade in North America. Most of the products traveling through our ports, however, are en route between inland U.S. and foreign locations. We cannot depend on our local population to produce our traffic; we need to offer superior

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service so shippers will choose to use our ports rather than other West Coast ports.

We are concerned about trade taxes, especially the harbor maintenance tax, because they impede our ability to compete against ports in British Columbia, Oregon and California.

We need very little harbor maintenance because we are a natural deep-draft harbor, but the Customs Service collects a lot of harbor maintenance taxes at our port because we handle a lot of high-value products. The Ports of Tacoma and Seattle need about \$100,000 in harbor maintenance annually but our shippers pay over \$50 million in harbor maintenance taxes annually. In other words, we get back about 2/10 of a penny for every dollar we pay in to the Harbor Maintenance Trust Fund.

As a result, we heavily subsidize our U.S. competitor ports who need a lot of harbor maintenance. Perhaps more important, we risk losing cargo to Vancouver because Canada doesn't impose such a tax.

These problems were bad enough when the harbor maintenance tax collected 40 percent of harbor maintenance costs. It now collects well over 100 percent of costs, however, and will collect even more if the tax is more strictly enforced, as the Administration proposes to do.

Furthermore, an overflowing trust fund is an irresistible target for extraneous expenditures. Several legislative proposals are pending that would use the Harbor Maintenance Trust Fund for purposes unrelated to harbor maintenance.

We are swiftly reaching the point where the entire system of

harbor maintenance taxes and expenditures will need to be thoroughly re-examined. For example, should ports like ours be allowed to withdraw from the system?

Meanwhile, other trade taxes continue to proliferate, as documented by the recent GAO report. Virtually all federal "services" at U.S. ports are now more than fully financed by "user fees". We are well into the realm of trade taxes as general revenue sources, not just reimbursement for services. We need to appreciate the counterproductivity of taxing trade at a time when we need to increase U.S. competitiveness in the international marketplace.

We applaud several initiatives discussed at the March 25 hearing. Although the inland waterway fuel tax increase has a minimal effect on our port's shippers, its magnitude clearly needs to be re-examined. Eliminating some of the minor taxes will probably save money because they cost more to collect than they raise. When the budget reconciliation bill comes before Congress, Members should realize the heavy burden already imposed by existing trade taxes and look elsewhere for further deficit reduction.

We also support the idea of follow-up studies to this baseline GAO report. We caution, however, that it will be extremely difficult to measure precisely the impact of trade taxes. This is especially true with regard to cargo diversion to Canadian ports because there are so many elements in a shipper's port selection decision. An impact study would have to be carried out at a very sophisticated level or it could produce misleading results. A study of similar taxes in other countries would be an especially

useful part of such a study.

We appreciate the efforts of your subcommittees to pursue this important issue. We look forward to working with you as you continue to address this matter.

STATEMENT OF THE
NATIONAL COAL ASSOCIATION
AND
COAL EXPORTERS ASSOCIATION

ON

THE IMPACT OF FEDERALLY MANDATED USER FEES
LEVIED ON THE MARITIME INDUSTRY

BEFORE THE

THE COAST GUARD AND NAVIGATION SUBCOMMITTEE
AND THE MERCHANT MARINE SUBCOMMITTEE
OF THE
HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE

The National Coal Association (NCA) and its affiliate, the Coal Exporters Association (CEA) thank you for the opportunity to present the coal industry's views concerning the effects of maritime user fees on trade.

NCA is an organization that represents coal producers, coal exporters, equipment manufacturers, resource developers, coal-burning utilities and transporters of coal. NCA's coal producer members represent approximately 70 percent of the coal produced in all regions of the United States and NCA members serve all coal markets.

CEA members represent coal producers that export coal as well as coal brokers. These companies represent approximately 80 percent of the coal that is exported from the United States.

In 1991, the United States was the second largest exporter worldwide by exporting 108.4 million short tons of coal to more than 40 countries including Canada. This contributes more than \$4.6 billion to the positive side of the trade balance. Coal is the 17th largest U.S. export in terms of value and the second largest commodity, after grain, exported from the United States. Australia, Canada, South Africa, and

Columbia are major U.S. competitors. Typically, about 10 percent of the coal produced in the United States is exported.

NCA and CEA are members of the Trade Taxes Coalition of shippers, carriers, commodity groups and other organizations interested in waterborne commerce. The Trade Taxes Group was formed as a result of the 1990 budget agreement which severely increased then existing trade taxes as well as levied new taxes on trade.

Two years ago, we submitted testimony to this Committee outlining the impact and danger of increasing taxes on trade. At that time, we did not have a full appreciation of the scope and the staggering amount of taxes levied on the maritime industry.

The recently released General Accounting Office (GAO) study, *Federal Assessment Levied on Commercial Vessels*, now provides an overview of the assessments currently levied on industry. We are very pleased with the thorough job done by the GAO in preparing this study. We have examined the study results and are confident this represents an excellent first step toward understanding the impact of these taxes on U.S. competitiveness in the world market.

The GAO study documents that \$11.9 billion, including \$1.9 million in user fees and taxes, and \$9.9 billion in Custom duties are levied by 12 federal agencies. Of the fees collected, 89 percent go the General Fund of the U.S. Treasury. Eleven percent reimburse the agency providing the service. Revenue projections for FY 1992 indicate that user fees will increase to \$2.1 billion. In addition, GAO estimates that the 28 pending assessments already in the works will add a further \$23.5 million in FY 1993 and will grow to \$40.3 million in FY 1997.

The coal industry's concerns focus on the impact these assessments have on trade, in particular, coal. We would like to focus on three specific concerns: the

harbor maintenance tax, the vessel tonnage tax and the proposed increase in the inland waterway user fee included in the President's Economic Stimulus Package.

Harbor Maintenance Tax

The Harbor Maintenance Tax, one of the user fees in the GAO study, was tripled in 1990 from 0.04 percent to its current level of 0.125 percent of the value of the cargo. A 60,000 ton movement of U.S. coal to a European steel mill valued at \$2,760,000 pays \$34,500 into the Harbor Maintenance Trust Fund. It is in the interest of the coal industry that our ports be maintained and in some cases deepened to permit the passage of larger vessels.

However, we take note that prior to the 1990 harbor maintenance fee increase, sufficient funds existed in the Harbor Maintenance Trust Fund to cover its intended use. The increase was justified in order to cover 100 percent of the Army Corps of Engineers' Operation and Maintenance costs, instead of the originally mandated 40 percent. Since the time the tax was tripled, a surplus of more than \$120 million has accumulated in the Fund. Based upon Corps of Engineers' calculations, the full operation and maintenance costs can be met at the original level of 0.04 percent. We urge the Committee to evaluate a roll-back of the tax.

We understand there are efforts to authorize use of harbor maintenance fees to fund the activities of the National Oceanic and Atmospheric Administration. We oppose in principle, the expansion of the uses of the trust fund beyond those originally mandated. The surplus in the Fund should not be used as an excuse to raid the trust fund for other purposes.

Vessel Tonnage Tax

Our second concern is the vessel tonnage tax. The 350 percent increase in the

vessel tonnage tax continues to be a concern to the U.S. coal industry. This tax is collected on vessels arriving in the United States from foreign ports. In the case of coal, this is truly a tax on exports. Coal carrying vessels often arrive empty at U.S. ports. Therefore, these vessels are assessed the full tax. As a policy consideration, we must question the taxation of exports, which are subject to intense international competition. In the case of coal and other bulk commodities, such as grain, the cost of this tax is incurred by coal exporters in the form of freight rates.

Specifically, Japan and Europe represent the destination for more than half of all U.S. coal exports. Coal being shipped to these destinations is paying the higher of the two-tiered rate -- \$0.27 per ton. As part of the budget agreement, the vessel tonnage tax, in 1996, was to revert to its original rate. The Administration's budget economic stimulus proposal assumes the continuation of the tax at its current rate. We do not support increasing taxes on U.S. exports.

Inland WaterWay User Fee

Our final concern covers a fee not covered in the GAO study but, if enacted, would have severe impacts on the domestic and export movements of coal. Included in the Administration's economic program and listed as a spending cut, is a proposal to impose an additional \$1.00 per gallon diesel fuel tax on commercial navigation using the inland waterways. The new tax added to the existing barge fuel tax, which will increase to \$0.20 per gallon in 1993 under present law, would significantly disadvantage domestic use of coal causing increases in industrial, commercial and residential rates for electricity and would erode our competitiveness in the world market causing critical losses in U.S. coal exports.

In 1991, approximately 154 million short tons of coal was moved on the inland waterway system with 85 percent carried to domestic customers and about 15 percent moving to export terminals near New Orleans and Mobile, Alabama. Approximately 24

million short tons of coal exports valued at \$1 billion would be impacted and quite possibly lost by an increase in the inland waterway user fee. As this coal cannot move into an already "saturated" domestic market, jobs in the coalfields and on the river would be lost.

An export movement of coal from Huntington, West Virginia to the Gulf would incur more than a \$3.00 per ton increase in its barge rates. In the extremely competitive international coal market, as little as \$0.10-\$0.60 per ton results in a U.S. coal exporter winning or losing a contract.

While it may be argued that not all of the exports will be lost, the coal that can move to rail will not be exported out the Gulf and coal exporters could expect increases in rail rates due to the increased demand for rail and the loss of a very competitive alternative to rail.

In conclusion, taxes on trade undercut our competitiveness in the international market at a time when the United States should instead be expanding its trade horizons.

Congress faces the daunting challenge of reducing the deficit while encouraging economic recovery. We urge you to resist the temptation to increase or enact new trade taxes. We further recommend that no increases or new trade taxes should be enacted without the mandatory assessment of the cumulative impact on trade and international competitiveness. The GAO study is an important first step in assessing these impacts. We recommend that the Committee pursue a second phase of the GAO study to estimate and better quantify the cumulative impact of these taxes on trade. The NCA and CEA offers our assistance and support.

We look forward to continuing this dialogue and to working with you to enhance the competitive position of the United States in international markets.

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